Office of the Superintendent of Financial Institutions Canada
Bureau du surintendant des institutions financières Canada

Office of the Superintendent of Financial Institutions Canada

for the
period ending
March 31, 2008

Departmental Performance Report

The Honourable James M. Flaherty, P.C., M.P.
Minister of Finance

OSFI
BSIF

Canada

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SECTION I: OVERVIEW

I.1 Message from the Superintendent

I am pleased to present the Departmental Performance Report (DPR) for the Office of the Superintendent of Financial Institutions (OSFI) for the period ending March 31, 2008.

This report focuses on the benefits of OSFI's contribution to Canadians and to Canada's financial and economic strength. It concentrates primarily on our two strategic outcomes: to regulate and supervise financial institutions and private pension plans so as to contribute to public confidence; and to contribute to public confidence in Canada's public retirement income system. Both strategic outcomes support the Government of Canada's desired outcomes of strong economic growth and income security for Canadians. In addition, OSFI's technical assistance program, which helps emerging market economies improve their financial institution supervisory systems, supports the government's priority for a safe and secure world through international co-operation.

This past year was a tumultuous one for the financial sector, beginning with a downturn in the U.S. sub-prime mortgage market and quickly spreading to financial markets around the globe which are inextricably linked. Capital and credit markets seized up, some large financial institutions in other countries were taken over, and around the world losses were very real.

Canada's banks entered this period very well capitalized, which has helped them weather the storm relatively well to date; however, there have been some losses at Canadian banks which, in some cases, were significant. As well, there was a major problem in the Canadian non-bank asset-backed commercial paper (ABCP) market. The ABCP issue led to significant public discussion over the year regarding liquidity lines to ABCP conduits and OSFI's role. We explained that we are responsible for assessing bank solvency, that OSFI capital rules apply to Canadian banks only (and not to other companies at the centre of the non-bank ABCP market or to the mainly foreign banks they dealt with), that our capital rules were prudent and necessary for bank solvency, and that securities commissions have a mandate to protect investors in ABCP securities.

Change is constant, and the financial landscape will continue to shift in ways that are not fully predictable at this time. That is why cushions are so important, and why OSFI focuses on capital, liquidity and stress testing at financial institutions. As well, in the spring of 2007, OSFI placed more focus on enhancing our ability to identify risks. Initiatives have included the creation of an internal Emerging Risk Committee and more interaction with international supervisors, so as to better assess the impact of changing risk on financial institutions and pension plans.

One of OSFI's priorities has been the successful implementation of the Basel II Capital Accord. The revised Basel Capital Framework (Basel II) became effective for Canadian banks on November 1, 2007. It will play a key role in strengthening risk management practices at banks. Efforts are now underway by the Basel Committee to update parts of Basel II for which capital was insufficient, based on knowledge gained as a result of the recent turmoil.

The Accounting Standards Board (AcSB) has decided that publicly accountable enterprises will be required to move to International Financial Reporting Standards (IFRS) as of 2011. IFRS implementation is an ongoing priority for OSFI to ensure consistent reporting for the purpose of reliable comparisons and effective monitoring of issues of safety and soundness. Work, both domestically and internationally, towards the implementation of IFRS is ongoing, and OSFI will continue to add a Canadian voice in international efforts to develop guidance related to the IFRS regime. Beginning in 2008-2009, OSFI will conduct extensive consultations with federal financial institutions regarding the effects of adopting IFRS, so as to work towards a smooth implementation.

Another of our priorities is to revise the current Minimum Continuing Capital and Surplus Requirements (MCCSR) regime to reflect IFRS developments, and to adopt more risk-based approaches as was done for banks under the Basel Accord, after consultation with the life insurance industry.

Reviews performed by the Office of the Chief Actuary (OCA) indicate that Canada has a public pension system that is expected to be sustainable and affordable well into the future. During 2007-2008, the OCA released Actuarial Study Number 6 on the Optimal Funding of the Canada Pension Plan (CPP) which examined the current funding approach of the Canada Pension Plan in terms of its optimality compared to other funding approaches. This, and future studies, seek to ensure the actuarial soundness of Canada's public retirement system.

In its regulation of private pension plans, OSFI has begun a review of its existing systems and processes with an eye to increasing efficiency and effectiveness. While there is minimal volatility in the private pension sector currently, we must continue to be vigilant and knowledgeable about techniques to manage the potential risks volatility can pose.

Looking ahead, we will continue to work to maintain our strong international reputation, as confirmed by an International Monetary Fund Financial Sector Assessment Program (FSAP) Report released in February. A major achievement in 2007-2008, the FSAP report noted that Canada's "financial stability is underpinned by…strong prudential regulation and supervision." OSFI will also face the effects of a softening global economy, which will have an impact on the financial institutions and private pension plans that OSFI oversees. OSFI's initiatives to enhance risk identification, as well as an announced ten percent increase in human resources will help ensure we are prepared to deal with any issues.

Virtually all of OSFI's revenues are derived from industry. Because OSFI places significant reliance on the internal processes of the financial institutions it regulates, OSFI's costs are generally lower than regulatory bodies that do not use such systems. OSFI will continue to hire and retain the staff necessary to address the complex issues inherent in the financial services environment, and to better enable us to monitor and assess risk in the financial institutions and pension plans we regulate.

OSFI will continue to play a pivotal role in the Canadian financial services industry, and to assess and measure our performance to retain and enhance our reputation as a world leader in financial regulation and supervision. I am confident that we will continue to contribute to the confidence Canadians rightly have in their financial system.

I.2 Management Representation Statement

I submit for tabling in Parliament, the 2007–08 Departmental Performance Report for the Office of the Superintendent of Financial Institutions.

This document has been prepared based on the reporting principles contained in the *Guide for the Preparation of Part III of the 2007–08 Estimates: Reports on Plans and Priorities and Departmental Performance Reports*:

- It adheres to the specific reporting requirements outlined in the Treasury Board Secretariat guidance;
- It is based on the department's approved Strategic Outcome(s) and Program Activity Architecture that were approved by the Treasury Board;
- It presents consistent, comprehensive, balanced and reliable information;
- It provides a basis of accountability for the results achieved with the resources and authorities entrusted to it; and
- It reports finances based on approved numbers from the Estimates and the Public Accounts of Canada.

Name: _____

Title: Superintendent

1.3 Summary Information

1.3.1 OSFI's Reason for Existence

Mandate

OSFI's legislated mandate, established in 1996, is to:

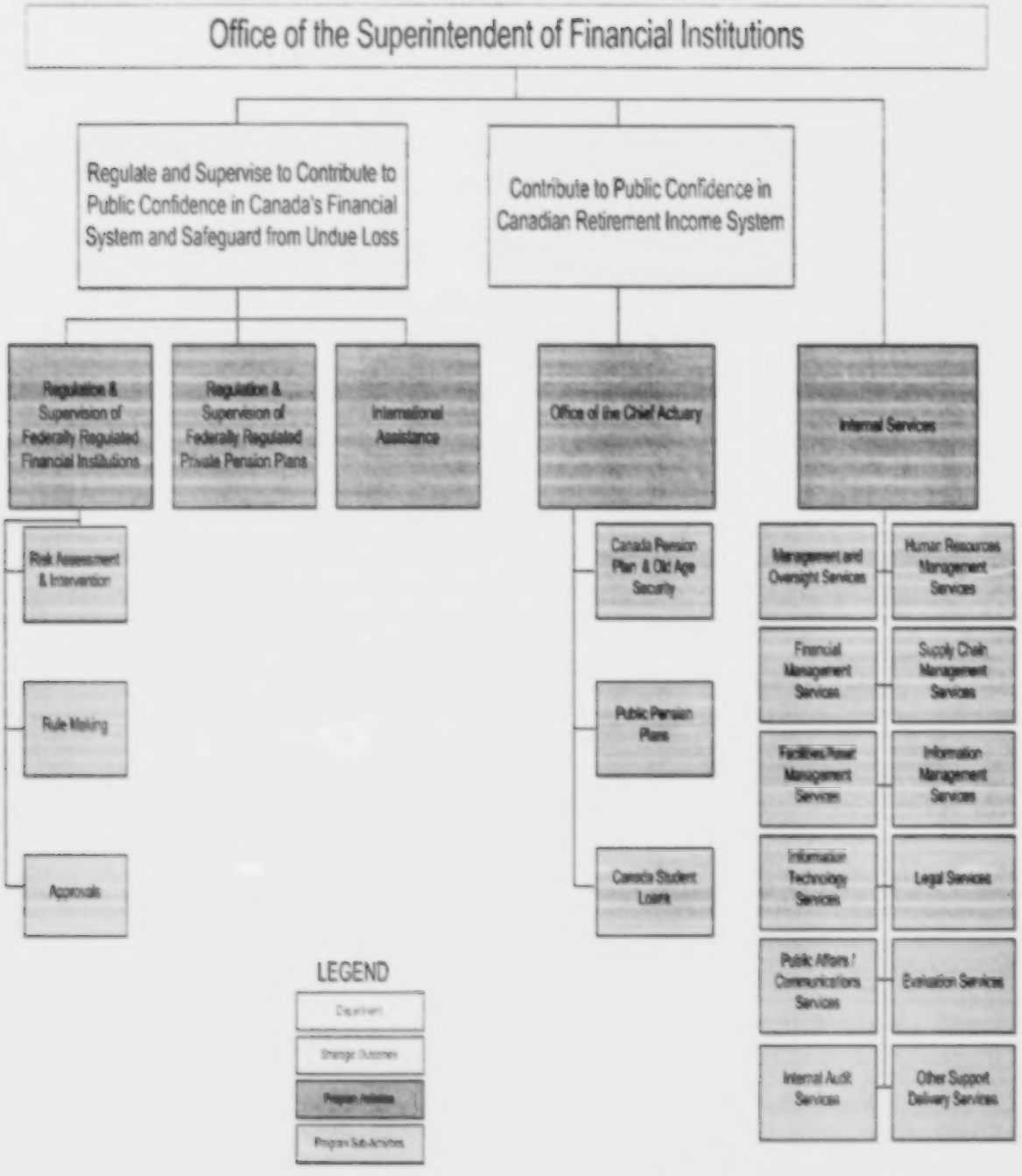
- Supervise federally regulated financial institutions and private pension plans to determine whether they are in sound financial condition and meeting minimum plan funding requirements respectively, and are complying with their governing law and supervisory requirements;
- Promptly advise institutions and plans in the event there are material deficiencies and take, or require management, boards or plan administrators to take, necessary corrective measures expeditiously;
- Advance and administer a regulatory framework that promotes the adoption of policies and procedures designed to control and manage risk; and
- Monitor and evaluate system-wide or sectoral issues that may impact institutions negatively.

In meeting this mandate, OSFI contributes to public confidence in the financial system.

OSFI's legislation also acknowledges the need to allow institutions to compete effectively and take reasonable risks. It recognizes that management, boards of directors and plan administrators are ultimately responsible for setting strategy and managing the financial institutions and pension plans, and that they can fail.

The Office of the Chief Actuary (OCA), which is an independent unit within OSFI, provides actuarial services to the Government of Canada.

1.3.2 Program Activity Architecture


Office of the Superintendent of Financial Institutions
Regulate and Supervise to Contribute to Public Confidence in Canada's Financial System and Safeguard from Undue Loss
Contribute to Public Confidence in Canadian Retirement Income System
Regulation & Supervision of Federally Regulated Financial Institutions
Regulation & Supervision of Federally Regulated Private Pension Plans
International Assistance
Office of the Chief Actuary
Internal Services
Risk Assessment & Intervention
Rule Making
Approvals
Canada Pension Plan & Old Age Security
Public Pension Plans
Canada Student Loans
Management and Oversight Services
Human Resources Management Services
Financial Management Services
Supply Chain Management Services
Facilities/Asset Management Services
Information Management Services
Information Technology Services
Legal Services
Public Affairs / Communications Services
Evaluation Services
Internal Audit Services
Other Support Delivery Services
LEGEND
Department
Strategic Outcomes
Program Activities
Program Sub-Activities

1.3.3 Total Financial and Human Resources

The tables below identify OSFI's financial and human resources, planned and actual, for the 2007-2008 fiscal year. OSFI's actual number of average full-time equivalents (FTEs) for the year was 459 or two less than planned and 13 more than the previous year[1].

2007-2008 Financial Resources ($ millions)

Planned	Authorities	Actual
$90.5	$90.5	$85.7

2007-2008 Human Resources (Average Full-Time Equivalents)

Planned	Actual	Difference
461	459	2

1.3.4 Priorities[2]

Name	Type	Performance Status
Management Priorities		
A. Readiness Planning	New	Successfully met
B. Basel II	Previously committed	Successfully met
C. Financial Sector Assessment Program (FSAP) / Financial Action Task Force (FATF)	New	Successfully met
D. Accounting Standards	Previously committed	Successfully met
E. Minimum Continuing Capital Surplus Requirement (MCCSR)	New	Successfully met
F. Pension Systems and Processes	New	Successfully met
G. Integration of Human Resources Planning into Business Planning	New	Successfully met
Ongoing Program Priorities		
1. Risk Assessment and Intervention	Ongoing	Successfully met
2. Rule Making	Ongoing	Successfully met
3. Approvals	Ongoing	Successfully met
4. Regulation and Supervision of Federally	Ongoing	Successfully met

[1] In its Departmental Performance Report for the fiscal year ending March 31, 2007, OSFI reported 456 average full-time equivalents. This number was restated to 446 to conform to the presentation adopted during fiscal year 2007-2008.

[2] A discussion of results begins on page 26 of this document.

Regulated Private Pension Plans		
5. International Assistance	Ongoing	Successfully met
6. Office of the Chief Actuary (OCA)	Ongoing	Successfully met
Ongoing Program Support Priorities		
7. High quality internal governance and related reporting.	Ongoing	Successfully met
8. Resources and infrastructure necessary to support supervisory and regulatory activities.	Ongoing	Successfully met

1.3.5 Program Activities by Strategic Outcome

	Expected Results	Performance Status	2007-2008 ($millions)		Links to the following priorities
			Planned Spending	Actual Spending	
Strategic Outcome 1: To regulate and supervise to contribute to public confidence in Canada's financial system and safeguard from undue loss.					
Program Activity 1.1 Regulation and Supervision of Federally Regulated Financial Institutions					
Sub-activity 1.1.1 Risk assessment and intervention (Ongoing Program Priority 1)	Accuracy of risk assessment and early intervention; effective support and facilitation for Basel II implementation.	Successfully met	$53.5	$51.4	Management Priorities A, B, C and G
Sub-activity 1.1.2 Rule making (Ongoing Program Priority 2)	Balanced regulatory framework; prudent capital rules and regulatory reporting and alignment with other jurisdictions.	Successfully met	$14.7	$14.2	Management Priorities D, E and G
Sub-activity 1.1.3 Approvals (Ongoing Program Priority 3)	Prudentially sound and responsive approvals process.	Successfully met	$7.7	$7.2	Management Priority G
Program Activity 1.2 Regulation and Supervision of Federally Regulated Private Pension Plans (Ongoing Program Priority 4)	Accuracy of risk assessment and early intervention.	Successfully met	$6.5	$5.8	Management Priorities F and G
Program Activity 1.3 International Assistance	Improved supervisory and regulatory practices for	Successfully met	$2.0	$2.0	Management Priority G

(Ongoing Program Priority 5)	foreign regulators.				
Strategic Outcome 2: To contribute to public confidence in Canada's public retirement income system.					
Program Activity 2.1 Office of the Chief Actuary (Ongoing Program Priority 6)	Expert and timely actuarial valuations and advice.	Successfully met	$6.1	$5.1	Management Priority G

Note: Internal Services, per OSFI's Program Activity Architecture (PAA) are considered part of every Program Activity and are linked to OSFI's ongoing Program Support Priorities 7 and 8.

I.4 Summary of Departmental Performance

I.4.1 Operating Environment

OSFI was created in 1987 through the enactment of the *Office of the Superintendent of Financial Institutions Act* (OSFI Act). The OSFI Act provides that the Superintendent is solely responsible for exercising the authorities provided by the financial legislation, and is required to report to the Minister of Finance from time to time on the administration of the financial institutions' legislation. The Superintendent periodically appears before various House of Commons and Senate Committees.

The Office of the Chief Actuary (OCA) was created within the organization as an independent unit to effectively provide actuarial and other services to the Government of Canada and provincial governments who are Canada Pension Plan (CPP) stakeholders. The Chief Actuary is solely responsible for the content and the actuarial opinions in reports prepared by the OCA. The Chief Actuary periodically appears before various House of Commons and Senate Committees.

Key Partners

OSFI works with a number of key partners. Together, these organizations constitute Canada's network of financial regulation and supervision and provide a system of depositor and policyholder protection.

Regulatory and Supervisory Framework Roles	
Government Organization	**Role**
Department of Finance	• Sets overall financial sector policy and facilitates co-ordination with other federal agencies.
Canada Deposit Insurance Corporation	• Provides deposit insurance. • Has a role in dealing with institutions in difficulty.

Bank of Canada	• Provides advice from its perspective in the area of financial institutions legislation and regulation and is responsible for the oversight, for the purpose of controlling systemic risk, of designated payments and other clearing and settlement systems in Canada. • Plays a key role as lender of last resort.
Financial Consumer Agency of Canada	• Ensures compliance with federal consumer protection laws and regulations.
Financial Transactions and Reports Analysis Centre of Canada	• Collects, analyzes and discloses financial information and intelligence on suspected money laundering and terrorist activities financing.

OSFI collaborates with provincial and territorial supervisory and regulatory agencies, as necessary, and with private-sector organizations and associations, particularly in rule making.

OSFI plays a key role in international organizations such as the Basel Committee on Banking Supervision, the Joint Forum, the Financial Stability Forum, the International Association of Insurance Supervisors, the Integrated Financial Supervisors, the Association of Supervisors of Banks of the Americas, the International Actuarial Association, and the Groupe des superviseurs bancaires francophones.

Regulated Entities

OSFI is the primary regulator of financial institutions and private pension plans operating in Canada under federal jurisdiction. OSFI supervises and regulates all federally incorporated or registered deposit-taking institutions, life insurance companies, property and casualty insurance companies, and federally regulated private pension plans. These 1,809 organizations managed a total of $3,823 billion of assets (as at March 31, 2008).

Federally Regulated Financial Institutions and Private Pension Plans and Related Assets

	Deposit-Taking Institutions	Life Insurance Companies	Property and Casualty Companies	Federally Regulated Private Pension Plans	Total
Number of organizations	151	112	196	1,350	1,809
Assets	$3,103 billion	$479 billion	$109 billion	$132 billion	$3,823 billion

OSFI also undertakes supervision of provincially incorporated financial institutions on a cost recovery basis under contract arrangements with some provinces. Additional details may be found on OSFI's Web site under About OSFI/ Who We Regulate.

Cost Recovery

OSFI recovers its costs from several revenue sources. OSFI is funded mainly through asset-based, premium-based or membership-based assessments on the financial institutions and private pension plans that OSFI regulates and supervises, and a user-pay program for selected services.

OSFI also receives revenues for cost-recovered services. These include revenues from the Canadian International Development Agency (CIDA) for international assistance; revenues from provinces for which OSFI does supervision of their financial institutions on contract; and revenues from other federal agencies for which OSFI provides administrative support.

Overall, OSFI recovered all its expenses for the fiscal year 2007-2008.

The Office of the Chief Actuary is funded by fees charged for actuarial services relating to the Canada Pension Plan, the Old Age Security program, the Canada Student Loans Program and various public sector pension and benefit plans, and by a parliamentary appropriation.

For further information, refer to OSFI's Annual Report, which is published on OSFI's web site under Organization / Reports/ Annual Reports.

I.4.2 Context

Financial and Competitive Environment

Credit market issues dominated the global financial landscape in 2007. The environment has been difficult, particularly for global banks, and the adjustment period could be prolonged.

Starting in the summer of 2007, accumulating losses on U.S. subprime mortgages triggered widespread disruption to the global financial system. Large losses were sustained on complex structured securities. Institutions reduced leverage and increased demand for liquid assets. Many credit markets became illiquid, hindering credit extension. More than eight months after the start of the market turmoil, the balance sheets of financial institutions remain burdened by assets that suffered declines in value and are further affected by vanishing market liquidity. While Canadian banks have not been immune from these developments, as a group they have faired relatively well.

Overall, the financial performance of the major Canadian banks for 2007 was relatively strong, however, a few banks took material write downs and were pressured to bring securitized assets back on their books, both in the fourth quarter of 2007 and the first quarter of 2008.

When the turmoil in the asset-backed commercial paper (ABCP) markets began in August 2007, OSFI moved to assess the impact on all federally regulated institutions (and pension plans). Very few institutions OSFI oversees had material exposure to non-bank ABCP, which was the most affected. In terms of the size of the non-bank market, according to figures provided in the Bank of Canada's December 2007 issue of the *Financial System Review*, non-bank asset backed commercial paper, as at July 2007 comprised about $35 billion, versus a total ABCP market of $116 billion.

Average return on equity for major Canadian banks in 2007 was 21.2%, down from a high of 23.2% in 2006. The average ratio of total capital to risk-adjusted assets was 11.9%, well above the Bank for International Settlements' 8% minimum threshold and OSFI's 10% target. These high levels of capital provide a buffer against future adverse economic or financial developments.

With overall strong capital and returns, the life insurance industry was in a healthy position at the close of 2007-2008; however, it faces challenges associated with softening global growth, corrections in equity markets and the possibility of an extended low interest rate environment. Average return on equity was 13.4%, down modestly from 13.7% the year before. OSFI's supervisory target ratio for Minimum Continuing Capital and Surplus Requirements (MCCSR) for Canadian companies is set at 150%. The average MCCSR ratio for Canadian life insurers in 2007 was 218%, significantly above OSFI's target ratio, indicating a well capitalized industry.

After several years of strong operating results, the property and casualty (P&C) insurance sector is starting to show signs of stress. Although 2007 industry results were strong, most indicators pointed to a year-over-year decline in performance. Industry return on equity was 16.1%, down from 20.3% the previous year. A principle measure of profitability for the industry is the combined ratio, which measures claims expenses to premium income – a result under 100% indicates that premium income exceeds claims expenses (before associated investment returns). In 2007, the combined ratio increased from 88.6% to 91.9%. Although increasing, the result indicates that the core business of the P&C industry continues to operate profitably.

Favourable market conditions through 2006 and into 2007 lessened funding pressures for many private pension plans going into 2007. The downward pressure on long-term interest rates appeared to ease. However, at year-end the liability discount rate was only marginally higher than a year earlier, and with the emergence of market turbulence in mid-2007, average investment returns for 2007 as a whole were very modest. The returns were characterized by wide divergence across individual plans, depending on their investment strategy and asset mix. As a result of these developments, funding pressures on pension plans have not disappeared.

Policy Environment

Work has begun at both the industry and regulatory level in Canada and globally to analyze lessons learned, and to develop guidance and processes that would restore

stability and investor confidence in the financial marketplace. Canadian government agencies met regularly to discuss impacts on industry and institutions, and the Bank of Canada extended liquidity to the system.

The Superintendent worked with international colleagues to draft the Financial Stability Forum (FSF) report on *Enhancing Market and Institutions Resilience*. The G7 Finance Ministers and Central Bank Governors established the FSF in 1999 to promote international financial stability through enhanced information exchange and international cooperation in financial market supervision and surveillance.

The FSF report includes over 60 recommendations that have been endorsed by the G-7 Finance Ministers, and covers key issues such as capital and liquidity for banks, as well as the need for more transparency. Much has already been done by central bankers, regulators and accounting standard setters to identify the causes of the global market turmoil, and to identify what should be done, but the implementation of the FSF report recommendations will take considerable effort and will go a significant way toward strengthening the global financial system. OSFI is currently working with other regulatory agencies to implement these recommendations in Canada.

Revisions to Financial Institutions Legislation
An *Act to amend the law governing financial institutions and to provide for related and consequential matters* received Royal Assent in March 2007. While the bulk of its provisions have been implemented, in 2007-2008 OSFI continued to work closely with the Department of Finance on the development of regulations in the context of the implementation of certain aspects of the Act.

Anti-Money Laundering and Anti-Terrorism Financing Initiatives
Extensive changes to the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act* were enacted by Parliament in 2007-2008. Most of the regulatory changes are to take effect in June 2008. OSFI amended its assessment methodology to take these new requirements into account.

I.4.3 Overall Performance

Despite new challenges presented by volatility in the global markets, in 2007-2008 OSFI was nonetheless successful in meeting the expectations flowing from all of its priorities. In addition to six ongoing priorities, OSFI's *2007-2008 Report on Plans and Priorities* (RPP) identified seven management priorities. While a detailed analysis of OSFI's performance against all priorities is found in Section II, the following highlights some of OSFI's accomplishments for the reporting period.

Management Priorities

OSFI's ability to achieve its mandate depends on the timeliness and effectiveness with which it identifies, evaluates, prioritizes, and develops initiatives to address areas where

its exposure to risk is greatest. In the RPP for 2007-2008, OSFI had identified several external and internal risks, and throughout the year took steps to address these risks.

Readiness Planning
OSFI took steps to ensure it can respond adequately to shocks as a result of a crisis or a pandemic, and cyclicality in the industry. Among other steps, OSFI: surveyed business resumption plans of federally regulated financial institutions; completed resource analysis and planning to enable OSFI to address the growing risk profiles across the industries it regulates; conducted a table-top exercise with OSFI senior executives to test their command and control structure while relocated to a simulated backup Emergency Command Centre.

Basel II Capital Accord
The revised Basel Capital Framework (Basel II) became effective for Canadian banks on November 1, 2007. OSFI gave approval to a number of banks to operate under the Advanced Internal Ratings Based approach under Basel II, and assisted smaller deposit-taking institutions to transition successfully to the Standardized approach for credit risk. OSFI also reviewed its practices to align with Basel II requirements, specifically by revising Capital Adequacy Requirements (CAR) Guidelines to incorporate a number of clarifications raised by industry, and by issuing relevant advisories to update the CAR Guidelines in response both to market developments and to accounting, legislative and other changes.

Accounting
The Canadian Accounting Standards Board has decided to adopt International Financial Reporting Standards (IFRS) by 2011 as the basis for financial reporting by public companies in Canada. This will have a significant impact on both OSFI and the institutions it regulates. OSFI developed a detailed project plan and team to guide internal implementation efforts as well as to help assess the effects moving to IFRS will have on institutions and the need for new or modified guidance from OSFI. OSFI also worked closely with key national and international organizations to present its views on these issues.

Minimum Continuing Capital Surplus Requirement (MCCSR)
OSFI continued its efforts towards the adoption of revised MCCSR rules by working with the life insurance industry through the MCCSR Advisory Committee (MAC) to develop and incorporate more advanced risk measurement techniques into the MCCSR. Also through MAC, OSFI issued a paper outlining the vision for a new more risk-sensitive capital framework for life insurers. The MCCSR Advisory Committee's draft vision paper may be found on OSFI's website under Regulated Entities / Life Insurance Companies and Fraternals / Drafts and Consultation Papers.

Financial Sector Assessment Program (FSAP) Update / Financial Action Task Force (FATF) Mutual Evaluation
During 2007-2008, OSFI participated in two important reviews. The International Monetary Fund (IMF) conducted a Financial Sector Assessment Program (FSAP) Update

of Canada, and the FATF conducted an assessment of Canada's anti-money laundering and anti-terrorist regimes. The IMF's FSAP report on Canada found OSFI to be compliant with all four Core Principles of Supervision assessed and noted that the Canadian financial sector is strong and its major banks would be able to withstand sizeable shocks to the financial system. The FATF mutual evaluation report recognized the good supervisory coverage of the banking and federally regulated trust companies by OSFI. The FATF mutual evaluation report (MER) also recognized OSFI's role in Canada's anti-money laundering/anti-terrorism financing (AML/ATF) regime as being effective.

People Risks
Attracting, motivating, developing and retaining skilled staff is a top priority for OSFI, particularly the ability to attract and retain staff whose skills are in demand in an increasingly complex and dynamic financial sector. OSFI took steps to put in place better long-range, integrated planning, including the creation of a new supervisory team based in Ottawa to assist the Toronto-based Financial Institutions Group in managing the workload created by the growing risk profiles across OSFI's regulated industries, and new positions for 2008-2009 to increase capacity and complement targeted technical skills in anticipation of emerging risks. OSFI also continued to recruit specific subject matter experts.

Pension Systems and Processes
The external environment for pensions includes increasingly complex work and more litigation. This demands greater skill on the part of OSFI staff who require the support of an upgraded pensions information system. OSFI refined its internal processes to improve efficiency and timeliness of pension approvals, and initiated Information Technology system enhancements to further support approval processes. OSFI also continued development of a new risk assessment framework for pension plans, to be followed by enhancements to the pension IT system to support efficient supervisory processes.

Ongoing Program and Support Priorities

In 2007-2008, OSFI's risk and intervention activities were largely driven by developments in the market place. As a result, a major focus for OSFI was on managing the impact of volatile credit and financial markets on federally regulated financial institutions' (FRFIs) liquidity and capital levels. In addition to working with international colleagues to draft the Financial Stability Forum report on *Enhancing Market and Institutional Resilience*, and the Basel Committee on Banking Supervision's announced steps to strengthen the resilience of the banking system, OSFI was proactive in intervening with several institutions in order to improve risk management and governance practices. OSFI also maintained up-to-date risk profiles of all federally regulated financial institutions – a low or moderate Composite Risk Rating was assigned to 94% of all rated institutions for 2007-2008.

OSFI continued to evolve the regulatory framework for financial institutions it supervises. Some of the key achievements for this year were: updates to guidelines and

advisories related to the measurement of capital and capital adequacy of banks and trust and loan companies; engaging in discussions with the life insurance industry on how to update the current approach to measuring life insurance regulatory capital requirements for the new accounting standards that cause material changes to balance sheet items used in the measurement of risks captured in the requirements; and releasing Guideline E-17, renamed as Background Checks on Directors and Senior Management of Federally Regulated Entities (FREs). Guideline E-17 is consistent with international developments and with regulatory standards in comparable foreign jurisdictions.

To align with, and respond to, the changing external environment for pensions, OSFI continued a review of the pension risk assessment framework begun in 2006-2007 in order to strengthen the risk-focused approach to pension supervision and to direct our resources most effectively. In addition, OSFI worked with the Department of Finance to develop legislation and regulations for phased-in retirement, and added resources and introduced more streamlined processes to improve timeliness of its pensions approvals process while ensuring complex transactions are carefully considered.

In the international arena, OSFI continued its work with foreign regulators and sharing its expertise in improvement of supervisory and regulatory practices in many countries. Significant inroads made into African nations last year were strengthened as close working relationships developed with Ghana, Nigeria and Malaysia to support these jurisdictions' transition to risk-based supervision for financial institutions. As well, CIDA's performance review of OSFI's International Advisory Group (IAG) indicated that training workshops were seen to be useful and that there have been generally sustainable impacts on capacity building in countries where IAG has established continuing relationships.

Finally, OSFI, through the Office of the Chief Actuary (OCA), continued to provide its expert actuarial valuation and advice to the Federal Government for sound financial management of the Public Sector Pension and Insurance Programs. The OCA completed actuarial reports on the Canada Pension Plan, the Canada Student Loans Program, the pension plans for the Members of Parliament and Federally Appointed Judges, and on the benefit plan financed through the Royal Canadian Mounted Police (dependants) Pension Fund. These reports provide actuarial information to decision-makers, Parliamentarians and the public, increasing transparency and confidence in the retirement income system. An external peer review – the CPP Actuarial Review Panel – confirmed that the 23rd CPP Actuarial Report met high professional standards and was based on reasonable assumptions to provide sound actuarial advice to Canadians.

Internal Audits and Reviews

OSFI has an independent internal audit function that objectively reviews, monitors and analyzes OSFI's key activities. During 2007-2008, a number of reviews were completed in which areas for improvement were identified. Internal audit reports, which include a management response, are posted on OSFI's website under Organization / Reports / Internal Audit Reports.

The Internal Audit Report on the Staffing Process indicated that the staffing framework is fundamentally sound, but identified areas where certain policies, guidance, and processes needed improvement to ensure the staffing action activities and files fully support the decisions made. In response to these recommendations, an improvement program was implemented to address all concerns identified.

The Internal Audit Review Report on OSFI's Planning Activities and Processes presented an assessment of OSFI's current planning process and tools, and recognized the significant enhancements that OSFI implemented or initiated during the 2008-2011 planning cycle. A multi-year improvement program was established to address the report's findings and recommendations.

A review of the Financial Institutions Group – Deposit Taking Institutions (FIG-DTI) assessed whether the supervision of the institutions in this group was risk-focused and whether the resulting risk assessments were reasonable and well supported. The report concluded that FIG-DTI staff demonstrated a sound understanding of the business activities of their institutions and rated inherent risks in these activities. However, the review found that the application of the methodology requires improvement in a number of areas. An improvement program has been developed.

The objective of a review of the Supervision Support Group Credit Risk Department was to assess whether OSFI's Supervisory Methodology and related practices were consistently applied in the supervisory process followed by the Credit Risk Department (CRD) in supporting the supervisory teams' examination of their credit activities. An improvement program has been established to address the recommendations flowing from the review.

Informing Canadians

OSFI remains committed to informing Canadians about its activities and plans, and to contributing to a dialogue on key issues facing the financial sector and pension plans.

In 2007-2008, OSFI made public several reports and published its external newsletter, *The Pillar*, three times. OSFI served some 1,215,595 visitors to the Web site; handled 12,916 public enquiries; responded to 102 enquiries from Members of Parliament, and replied to 149 enquiries from representatives of the news media.

OSFI is recognized as an international model for prudential regulators and receives many requests to address conferences and other events. In response, the Superintendent and other senior OSFI officials delivered over 35 presentations to industry and regulatory forums across Canada and internationally. The Superintendent also made presentations to Parliamentary Committees including the House of Commons Standing Committee on Finance and the Senate Standing Committee on Banking, Trade and Commerce. Most speeches and presentations are available on OSFI's Web site under Organization / Speeches.

SECTION II: ANALYSIS OF PROGRAM ACTIVITIES BY STRATEGIC OUTCOME

II.1 Strategic Outcomes

Primary to OSFI's mission and central to its contribution to Canada's financial system are two strategic outcomes:

1. *To regulate and supervise to contribute to public confidence in Canada's financial system and safeguard from undue loss.* OSFI safeguards depositors, policyholders and private pension plan members by enhancing the safety and soundness of federally regulated financial institutions and private pension plans.
2. *To contribute to public confidence in Canada's public retirement income system.* This is achieved through the activities of the Office of the Chief Actuary, which provides accurate, timely advice on the state of various public pension plans and on the financial implications of options being considered by policy makers.

II.2 Program Activities

Three *program activities* support OSFI's **first strategic outcome** to regulate and supervise financial institutions and private pension plans so as to contribute to public confidence.

1. *Regulation and supervision of federally regulated financial institutions (FRFIs)*
   This program activity is central to the achievement of OSFI's mandate to protect the rights and interests of depositors and policyholders and advance a regulatory framework that contributes to public confidence in the Canadian financial system. The three sub-activities of this program are:
   - Risk assessment and intervention includes activities to monitor and supervise financial institutions, monitor the financial and economic environment to identify emerging issues and intervene in a timely way to protect depositors and policyholders, while recognizing that all failures cannot be prevented.
   - Rule making encompasses the issuance of guidance and regulations, input into federal legislation affecting financial institutions, contributions to accounting, auditing and actuarial standards, and involvement in a number of international rule-making activities.
   - Approvals of certain types of actions or transactions undertaken by regulated financial institutions. This covers two distinct types of approvals: those required under the legislation applying to financial institutions and approvals for supervisory purposes.

   There is a strong interrelationship among the three parts of this supervisory and regulatory program. The supervisory function relies on an appropriate framework of rules and guidance. In some situations, regulatory approval is required because a proposed transaction may significantly affect an institution's risk profile. Approving such a change involves both a supervisory and regulatory assessment. Supervisory experiences often identify areas where new or amended rules are needed.

As identified in OSFI's mandate, OSFI must also recognize the need for financial institutions to compete effectively. The sustainability and success of regulated institutions is important for the long-term safety and soundness of the financial system. As a result, OSFI needs to strike an appropriate balance between promoting prudence and allowing financial institutions to take reasonable risks in order to compete and prosper.

2. *Regulation and supervision of federally regulated private pension plans*
This program incorporates risk assessment, intervention, rule making and approvals related to federally regulated private pension plans under the *Pension Benefits Standards Act, 1985*.

3. *International Assistance*
OSFI supports initiatives of the Government of Canada to assist emerging market economies to strengthen their regulatory and supervisory systems. This program incorporates activities related to providing help to selected countries that are building their supervisory and regulatory capacity. This program is largely funded by the Canadian International Development Agency and is carried out by OSFI directly and through its participation in the Toronto International Leadership Centre for Financial Sector Supervision. This involvement strengthens the financial system regulatory and supervisory regimes in those jurisdictions.

A fourth *program activity*, the Office of the Chief Actuary, supports OSFI's **second strategic outcome**: to contribute to public confidence in Canada's public retirement income system.

4. *Office of the Chief Actuary (OCA)*
The OCA provides a range of actuarial services, under legislation, to the Canada Pension Plan (CPP) and some federal government departments, including the provision of expert and timely advice in the form of reports tabled in Parliament. The basic elements of this program include:
   - Canada Pension Plan and Old Age Security: The OCA estimates long-term expenditures, revenues and current liabilities of the CPP and long-term future expenditures for Old Age Security programs. The OCA also prepares statutory triennial actuarial reports on the financial status of these programs.
   - Other Public Sector Pension Plans: The OCA prepares statutory triennial actuarial reports on the financial status of federal public sector employee pension and insurance plans covering the federal Public Service, the Canadian Armed Forces, the Royal Canadian Mounted Police, the federally appointed judges and Members of Parliament.

Since 2001, the OCA also undertakes the actuarial review of the Canada Student Loans Program by evaluating the portfolio of loans and the long-term program costs.

II.3 Monitoring Mechanisms and Performance

OSFI uses various types of performance measures, including industry surveys, peer reviews and internal indicators. For each priority, the reporting is based on the types of monitoring mechanisms used.

Since 1998, OSFI has engaged in a process of periodic, anonymous, independent consultations with industry stakeholders. Generally these are comprised of senior executives and professionals representing the stakeholder group, and are subsequently referred to as "knowledgeable observers". This provides OSFI with an indication of its performance in program areas, including whether it is providing the guidance and direction necessary to stakeholders.

OSFI's mandate explicitly provides that closures and terminations of the financial institutions it regulates can occur and are not by themselves an indication of OSFI's performance. In considering those that do occur, OSFI assesses how it performed relative to its early intervention mandate in identifying the situation and intervening appropriately.

It should be recognized that OSFI's performance does not constitute the only influence on its strategic outcomes. Indeed, OSFI's legislation recognizes that there are many other factors and stakeholders whose actions or inactions have a large impact on the strategic outcomes. OSFI monitors the external environment to help ensure it has a clear understanding of the influences on its key strategic outcomes and to gain additional insights into the ways by which OSFI itself can continue to contribute to those outcomes.

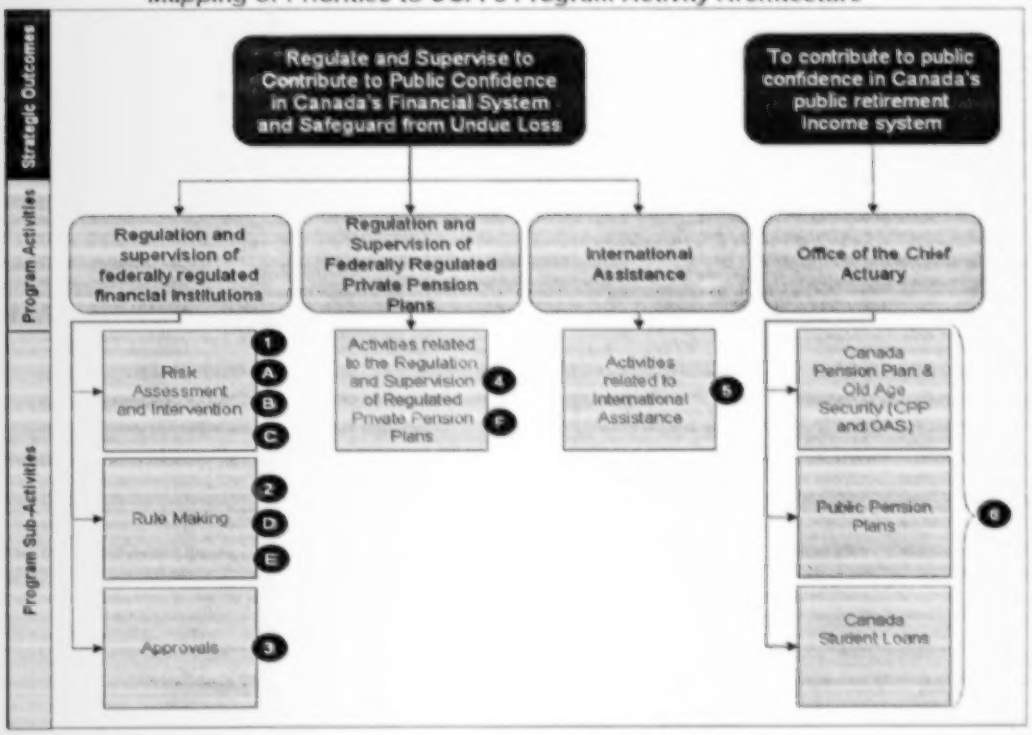
In 2007-2008, OSFI enhanced its performance measurement framework and performance measures for external reporting to Parliament, Treasury Board and other stakeholders. This framework, comprising measures, indicators, targets and reporting cycles, meets the requirements of the Treasury Board's Management Resources and Results Structure (MRRS) Policy and was embedded into OSFI's *2008-2009 Report on Plans and Priorities*. OSFI is implementing, where feasible and appropriate, reporting based on the updated measures from the enhanced framework in this *2007-2008 Departmental Performance Report*.

In some cases, data collection against prior measures was discontinued in order to implement OSFI's enhanced measures. In other cases, new measures were developed to support new priorities. Performance measures that are included for the first time in this report are identified as "*NEW*".

II.4 Detailed Analysis of Performance

The diagram below illustrates the link between OSFI's priorities and its Program Activity Architecture.

Mapping of Priorities to OSFI's Program Activity Architecture



Ongoing Program Priorities

1. Accurate risk assessments of financial institutions and timely, effective intervention and feedback
2. A balanced, relevant regulatory framework of guidance and rules that meets or exceeds international minimums
3. A prudentially effective, balanced and responsive approvals process
4. Accurate risk assessments of pension plans, timely and effective and feedback, a balanced regulatory framework, and a prudentially effective and responsive approvals process
5. Contribute to awareness and improvement of supervisory and regulatory practices for selected foreign regulators through the operation of an International Assistance Program
6. Contribute to financially sound federal government public pension and other programs through the provision of expert actuarial valuation and advice

Management Priorities

- **A** Readiness Planning. Enhance OSFI's ability to respond to shocks to the economy as a result of a crisis or pandemic; improve readiness to respond to cyclicality in the industry. *NEW*
- **B** Basel II: Implementation Phase. Review and approve applications submitted under the Basel II Capital Accord, support the industry in implementing Basel II requirements, review OSFI guidelines and practices to ensure that they align with Basel II requirements
- **C** Financial Sector Assessment Program (FSAP) Update / Financial Action Task Force (FATF). Participate in FSAP Update and FATF review, deal with feedback that results from the reviews. *NEW*
- **D** Accounting Standards. Implement move from GAAP to IFRS by addressing changes to OSFI's prudential regime, including consideration of changes in accounting for insurance
- **E** Minimum Continuing Capital Surplus Requirements (MCCSR). Develop and agree on a capital framework for life insurance companies. *NEW*
- **F** Pension Systems and Processes. Enhance OSFI's ability to perform in an increasingly complex pensions environment. *NEW*

In addition to the above Program Priorities, OSFI has Program Support Priorities which are discussed in Section IV.3.

The following tables provide an assessment of OSFI's performance for the year against its Program Priorities and Management Priorities.

PRIORITY 1

Strategic Outcome: Regulate and Supervise to Contribute to Public Confidence in Canada's Financial System and Safeguard from Undue Loss	
Program Activity: Regulation and Supervision of Federally Regulated Financial Institutions	
Program Sub-Activity: Risk Assessment and Intervention	
Priority 1: Accurate risk assessments of financial institutions and timely, effective intervention and feedback. (Ongoing)	
Description Monitor and supervise financial institutions; monitor the financial and economic environment to identify emerging issues and risks. Intervene in a timely manner to protect depositors and policyholders while recognizing that OSFI cannot eliminate the possibility of failures.	
Key Expected Results • OSFI uses a modern supervisory process that leads to an accurate overall assessment of the risk profile and control functions of the financial institutions it regulates and supervises. • In exercising its early intervention mandate, OSFI is proactive in intervening in problem cases regarding the financial institutions it regulates and supervises. • Risk assessments and management reports are timely and clear. • Intervention action is commensurate to the seriousness of the problem/issue at hand.	
Key Performance Measures / Achieved Results	**Ratings**
1. ***NEW*** **Estimated recoveries on failed institutions.**[3] *Source: Canada Deposit Insurance Corporation, Agents, Liquidators* • For the 12 months ended June 30, 2007, the total weighted average recoveries on institutions that failed in prior periods were $0.98 on each dollar.	2007-08 – Successfully met 2006-07 – N/A 2005-06 – N/A
2. ***NEW*** **Percentage of knowledgeable observers who rate the clarity of OSFI's written correspondence (e.g., Management Reports or Supervisory Letters) outlining issues of concern as good or very good.** *Source: Report on Financial Institutions Survey 2008* [4]	2007-08 – Successfully met 2006-07 – N/A

[3] This measure is a proxy for whether OSFI intervened early enough to prevent undue loss to depositors and/or policyholders. Estimated recovery is the amount on the dollar per claim each policyholder or depositor would receive upon the completion of the liquidation. Expectation > $0.90.

[4] OSFI provided The Strategic Counsel, an independent research firm, with a list of CEOs of federally regulated financial institutions. The research firm invited the CEOs to participate in either an online or a

• 83% of financial institution CEOs rate the clarity of OSFI's written correspondence (e.g., Management Reports or Supervisory Letters) outlining issues of concern as good or very good.	2005-06 – N/A
3. *NEW* Percentage of knowledgeable observers who believe that their institution's Composite Risk Rating is appropriate. *Source: Report on Financial Institutions Survey 2008* • 87% of financial institution CEOs believe that their institution's Composite Risk Rating is appropriate.	2007-08 – Successfully met 2006-07 – N/A 2005-06 – N/A

Performance Discussion

Steps taken during the year in support of this objective include:

- Intervened with a number of institutions to improve risk management and governance practices and to enhance safety and soundness.
- Continued to maintain up-to-date risk profiles of all federally regulated financial institutions. Assigned a low or moderate Composite Risk Rating (CRR) to 94% of all rated institutions as at March 31, 2008, and rated 6% (25 financial institutions) as above average or high risk (compared to 95% and 5% in 2006-2007).

Steps planned for the future to improve performance include:

- In the coming year, OSFI anticipates doing comparative reviews of industry practices in the banking sector in the following four areas: securitization, liquidity management, stress testing of the credit book, and valuation of illiquid products.
- Conduct a review in the life insurance sector related to commercial real estate, and a review in the banking sector related to US commercial real estate.

Financial Resources ($ millions)

Planned	Authorities	Actual
$53.5	$53.5	$51.4

Human Resources (average Full-Time Equivalents, including Internal Services)

Planned	Actual	Difference
246	247	(1)

telephone survey, and 166 (61%) participated. OSFI does not know which CEOs participated. The complete report is available on OSFI's Web site under Organization / Reports/ Consultations and Surveys.

PRIORITY A

Strategic Outcome: Regulate and Supervise to Contribute to Public Confidence in Canada's Financial System and Safeguard from Undue Loss	
Program Activity: Regulation and Supervision of Federally Regulated Financial Institutions	
Program Sub-Activity: Risk Assessment and Intervention	
Priority A: Readiness Planning (New)	
Description • Enhance OSFI's ability to respond to shocks to the economy as a result of a crisis or pandemic. • Improve readiness to respond to cyclicality in the industry, e.g. a possible economic downturn.	
Key Expected Results • Up-to-date Business Continuity Plan is in place to ensure that OSFI can continue to execute it's mandate in the event of an emergency situation such as a pandemic. • OSFI is positioned to identify and respond effectively to a possible economic downturn.	
Key Performance Measures / Achieved Results	**Ratings**
1. *NEW* OSFI has a current Business Continuity Plan that addresses a range of scenarios including pandemic planning. • Updated OSFI's Business Continuity Plan, added a pandemic scenario, and validated through a table-top exercise.	2007-08 – Successfully met 2006-07 – N/A 2005-06 – N/A
2. *NEW* Appropriate supervisory resources are allocated to enable OSFI to monitor and address impact of cyclicality in the industry. • Completed resource analysis and planning, and budgeted for an increase of approximately 10% in supervisory resources in 2008-2009 to enable OSFI to address the growing risk profiles across the industries it regulates.	2007-08 – Successfully met 2006-07 – N/A 2005-06 – N/A

Performance Discussion

Steps taken during the year in support of this objective include:

- Conducted a table-top exercise with OSFI senior executives and the Business Continuity Planning Team to test their command and control structure while relocated to a simulated backup Emergency Command Centre.
- Conducted a table-top exercise to test OSFI's Information Technology disaster recovery plan.
- Surveyed business resumption plans, including pandemic preparedness, of federally regulated financial institutions.
- Emphasized the stress testing capabilities of larger institutions.
- Enhanced monitoring efforts to support earlier identification and response to emerging risks.
- Implemented an Emerging Risk Committee to enhance early identification and tracking of environmental or industry developments or events that might impact, or indicate a future hazard for, federally regulated financial institutions.

Steps planned for the future to improve performance include:

- This priority is short-term and was addressed in the reporting period. Any future activities will be incorporated into ongoing operations.

Financial Resources and Human Resources: Included in Priority 1

PRIORITY B

Strategic Outcome: Regulate and Supervise to Contribute to Public Confidence in Canada's Financial System and Safeguard from Undue Loss

Program Activity: Regulation and Supervision of Federally Regulated Financial Institutions

Program Sub-Activity: Risk Assessment and Intervention

Priority B: Basel II: Implementation Phase (Previously committed)

Description

The implementation of the Basel II Capital Accord in Canada is a multi-year initiative. In 2007-2008 the objective of the program was to:

- complete the review and approval, with a reasonably high degree of confidence, of the applications that are submitted for approval under the Basel II Capital Accord;
- support the industry in implementing Basel II requirements; and
- review OSFI guidelines and practices to ensure that they align with Basel II requirements.

Key Expected Results

- OSFI's supervisory framework remains contemporary and assists OSFI in being able to detect prudential issues on a timely basis.
- Applications received are reviewed for approval prior to the Accord implementation date.
- OSFI effectively supports and facilitates institutions' transition to the Basel II framework.
- Regulatory and supervisory practices are updated to address Basel II requirements for supervisors.

Key Performance Measures / Achieved Results	Ratings
1. *NEW* Completed the review and approval (or otherwise) of applications that were submitted for approval under the Basel II capital framework. • Granted approval to various banks to operate under the Advanced Internal Ratings Based approach within the current reporting timeframe.	2007-08 – Successfully met 2006-07 – N/A 2005-06 – N/A
2. Industry stakeholders are of the view that OSFI uses a high quality process for implementing Basel II. • Early in 2008, Canada participated in a joint World Bank-International Monetary Fund pilot review of the implementation of the Basel II Capital Adequacy Framework. Preliminary feedback suggests that Canada has succeeded in a high-quality and collaborative implementation of the Basel II Capital Adequacy Framework. The final report is expected to be released in 2008-2009.	2007-08 – Successfully met 2006-07 – Successfully met 2005-06 – N/A
3. *NEW* Guidelines and practices are updated to comply with Basel II requirements. • Made revisions to, and issued advisories related to, the Capital Adequacy Requirements (CAR) Guidelines for banks, trust and loan companies on the implementation of the new Basel II capital framework, in order to incorporate a number of issues raised by the industry.	2007-08 – Successfully met 2006-07 – N/A 2005-06 – N/A
4. Development / integration of supervisory processes to support Pillar I approval and augment the risk matrix. • Developed and incorporated internal processes linking institutions' Basel II implementation, methodologies and processes to the risk matrix.	2007-08 – Successfully met 2006-07 – Successfully met 2005-06 – N/A

Performance Discussion

Steps taken during the year in support of this objective include:

- Undertook a comprehensive review and assessment of applications to operate under the Advanced Internal Ratings Based (AIRB) approach under Basel II that were received during this reporting period. Decisions were based on the review and assessment of information submitted and actions taken to meet the principles, requirements, and steps for the approval of the AIRB Approach as detailed in OSFI's *Implementation Note A-1-2007-2008 Approval of IRB Approaches for Institutions*. Information obtained in meetings and discussions with management was also considered.
- Assisted smaller deposit-taking institutions to transition successfully to the Standardized Approach for credit risk.
- Considered clarifications raised by the industry through the Canadian Bankers Association and financial institution specific discussions in order to update the CAR Guidelines and issue

advisories.

Steps planned for the future to improve performance include:
The Basel II program has now moved into the post-implementation phase. Work in the next year will focus on:

- Monitoring the performance of recently implemented Basel II systems.
- Continuing validation work for Pillar 1 credit risk.
- Performing reviews of the banks' internal capital adequacy assessment processes.
- Reviewing the target capital policy for risk ratios and floors based on Basel II experience.

Financial Resources and Human Resources: Included in Priority 1

PRIORITY C

Strategic Outcome: Regulate and Supervise to Contribute to Public Confidence in Canada's Financial System and Safeguard from Undue Loss	
Program Activity: Regulation and Supervision of Federally Regulated Financial Institutions	
Program Sub-Activity: Risk Assessment and Intervention	
Priority C: Financial Sector Assessment Program (FSAP) Update / Financial Action Task Force (FATF) (New)	
Description Participate in FSAP Update and FATF review and be in a position to deal with any feedback that results from the reviews.	
Key Expected Results OSFI will receive an independent view as to whether it develops, maintains and contributes to a regulatory framework that meets or exceeds international minimums.	
Key Performance Measures / Achieved Results	**Ratings**
1. *NEW* OSFI's objective is to receive a successful assessment on the FSAP Update and the FATF review. • The International Monetary Fund's FSAP Update report on Canada found OSFI to be compliant with all four core principles assessed and noted that the Canadian financial sector is strong and its major banks would be able to withstand sizeable shocks to the financial system. • The FATF mutual evaluation report (MER) recognized OSFI's role in Canada's anti-money laundering/anti-terrorism financing (AML/ATF) regime as being effective, and noted that regulatory changes scheduled to take effect in December 2007 and June 2008 would address most issues of Canada's non-compliance with the FATF standards.	2007-08 – Successfully met 2006-07 – N/A 2005-06 – N/A

Performance Discussion

Steps taken during the year in support of this objective include:

FSAP

- Provided the International Monetary Fund (IMF) with detailed self-assessments regarding compliance with four recently revised core principles on Liquidity Risk, Operational Risk, Interest Rate Risk in the Banking Book and Supervisory Techniques.
- Worked with the Bank of Canada and the major banks to undertake stress testing under a number of scenarios.

FATF

- Provided extensive input, with a number of other stakeholders, to the mutual evaluation questionnaire, which is a key input into the FATF's MER.
- Amended OSFI's AML/ATF assessment methodology to take into account the new legislative requirements.

Steps planned for the future to improve performance include:

- Guideline B-8 on Deterring and Detecting Money Laundering and Terrorist Financing will be revised to reflect a number of legislative and regulatory amendments.
- This priority is short-term and was addressed in the reporting period. Future activities will be incorporated into ongoing operations.

Financial Resources and Human Resources: Included in Priority 1

PRIORITY 2

Strategic Outcome: Regulate and Supervise to Contribute to Public Confidence in Canada's Financial System and Safeguard from Undue Loss

Program Activity: Regulation and Supervision of Federally Regulated Financial Institutions

Program Sub-Activity: Rule Making

Priority 2: A balanced, relevant regulatory framework of guidance and rules for financial institutions that meets or exceeds international minimums. (Ongoing)

Description

Issuance of guidance and input into federal legislation and regulations affecting financial institutions. Contribute a regulatory perspective to accounting, auditing and actuarial standards as required. Contribute to the development of international prudential rule-making.

Key Expected Results

- In developing, maintaining and contributing to a regulatory framework that meets or exceeds international minimums, OSFI strikes an appropriate balance between safety and soundness and the need for institutions to compete.
- Guidelines, Advisories and other guidance developed and issued to industry by OSFI reflect timely, clear and relevant information.
- Competitive, prudent capital rules and regulatory reporting for Canadian Federally Regulated Financial Institutions consistent with economic realities, Basel rules and IAIS guidance for recognizing capital instruments, and significant foreign markets.

Key Performance Measures / Achieved Results	Ratings
1. Percentage of knowledgeable observers who rate OSFI as good or very good at developing regulations, guidelines and other rules that strike an appropriate balance between prudential considerations and the need for institutions to compete. *Source: Report on Financial Institutions Survey 2008*[5] • 63% of financial institution CEOs rate OSFI as good or very good at developing regulations and guidance that strike an appropriate balance between prudential considerations and the need for institutions to compete.	2007-08 – Successfully met 2006-07 – Successfully met[6] 2005-06 – N/A
2. *NEW* Percentage of knowledgeable observers who rate OSFI as good or very good at developing regulations, guidelines and other rules for industry that are clear and easy to understand. *Source: Report on Financial Institutions Survey 2008* • 61% of financial institution CEOs rate OSFI as good or very good at developing regulations and guidance that are clear and easy to understand.	2007-08 – Successfully met 2006-07 – N/A 2005-06 – N/A
3. *NEW* Percentage of knowledgeable observers who rate OSFI as good or very good at consulting with industry on the development of regulations, guidelines and other rules. *Source: Report on Financial Institutions Survey 2008* • 77% of financial institution CEOs rate OSFI as good or very good at consulting with the financial services industry when developing regulations and guidance.	2007-08 – Successfully met 2006-07 – N/A 2005-06 – N/A

Performance Discussion

Steps taken during the year in support of this objective include:

- OSFI issued the final version of the Capital Adequacy Requirements and related reporting

[5] OSFI provided The Strategic Counsel, an independent research firm, with a list of CEOs of federally regulated financial institutions. The research firm invited the CEOs to participate in either an online or a telephone survey, and 166 (61%) participated. OSFI does not know which CEOs participated. The complete report is available on OSFI's Web site under Organization / Reports/ Consultations and Surveys.

[6] In 2006-2007, 87% of life insurance company executives and professionals rated this as very good, good and fair. When "fair" is included in the 2007-2008 results, the total rating is 92%.

forms for banks and trust and loan companies, which ensures Canada is aligned with the standards developed by the Bank for International Settlements (BIS) Basel Committee on Banking Supervision.
- The Minimum Continuing Capital and Surplus Requirements for life insurers was updated, largely to address issues related to assets replicated synthetically and with derivatives.
- OSFI issued a number of capital advisories designed to clarify particular aspects of OSFI's capital guidance.
- In the area of corporate governance, OSFI issued a guideline on Background Checks for Directors and Senior Management of Federally Regulated Enterprises, which aligns Canada with the expectations of internationally accepted regulatory practice.
- Worked with Basel Committee on Banking Supervision to identify issues arising from the current credit environment and the steps needed to strengthen the resilience of the banking system.

Steps planned for the future to improve performance include:
- OSFI will be issuing a revised version of its Guideline E-6 on Materiality Criteria that will reflect changes to related party rules found in the legislation governing federally regulated financial institutions. The guideline will also consolidate and harmonize the three FRFI sector guidelines to ensure a level playing field for all FRFIs.

Financial Resources ($ millions)

Planned	Authorities	Actual
$14.7	$14.7	$14.2

Human Resources (average Full-Time Equivalents, including Internal Services)

Planned	Actual	Difference
98	86	12

PRIORITY D

Strategic Outcome: Regulate and Supervise to Contribute to Public Confidence in Canada's Financial System and Safeguard from Undue Loss

Program Activity: Regulation and Supervision of Federally Regulated Financial Institutions

Program Sub-Activity: Rule Making

Priority D: Accounting Standards: Implement move from Generally Accepted Accounting Principles (GAAP) to International Financial Reporting Standards (IFRS) (Previously committed)

Description
Implement the move from Canadian Generally Accepted Accounting Principles to International Financial Reporting Standards by addressing changes to OSFI's prudential regime, including consideration of changes in accounting for insurance. This is a multi-year priority with full implementation expected to be completed by 2011.

Key Expected Results
- OSFI is able to handle revised accounting and reporting changes, and maintain its strategy of

using audited financial statement amounts as the starting point for regulatory purposes.
- OSFI's position is articulated and considered by Canadian and international committees.

Key Performance Measures / Achieved Results	Ratings
1. Through the identification and communication of well articulated positions, OSFI's prudential issues are considered by Canadian and international committees. OSFI succeeds in having high priority Canadian issues dealt with appropriately. • Collaborated with the Canadian Institute of Chartered Accountants' Accounting Standards Board (AcSB), the Auditing and Assurance Standards Board, the Accounting Task Force (ATF) of the Basel Committee on Banking Supervision, and the International Association of Insurance Supervisors' (IAIS) Insurance Contracts Subcommittee.	2007-08 – Successfully met 2006-07 – Successfully met 2005-06 – N/A
2. Revised capital and/or accounting guidelines are drafted and issued on a timely basis. • No revisions were required during 2007-2008. Planning is underway for industry consultations in 2008-2009.	2007-08 – N/A 2006-07 – Successfully met 2005-06 – N/A

Performance Discussion

Steps taken during the year in support of this objective include:
- Identified the key differences between Canadian GAAP and IFRS in order to work towards assessing the effects that moving to IFRS will have on FRFIs and the need for new or modified guidance from OSFI.
- Worked closely with the Canadian Institute of Chartered Accountants' Accounting Standards Board (AcSB) staff and participated in bilateral discussions with AcSB staff on issues related to the adoption of IFRS.
- As part of the Accounting Task Force (ATF) of the Basel Committee on Banking Supervision, provided comment letters to the International Accounting Standards Board (IASB) on key discussion papers.
- Through participation on the International Association of Insurance Supervisors' (IAIS) Insurance Contracts Subcommittee, worked on a response to the IASB Discussion Paper on Insurance Contracts, as well as submitting an independent response.
- Engaged in discussions with the life insurance industry on how to update the current approach to measuring life insurance regulatory capital requirements for the new IFRS that cause material changes to balance sheet items used in the measurement of risks captured in the requirements.

Steps planned for the future to improve performance include:
- Beginning in 2008-2009, OSFI will conduct extensive consultations regarding the effects the adoption of IFRS will have on OSFI as well as on federally regulated financial institutions. The consultations will form the basis for decisions as to the need for changes in OSFI guidance, reporting requirements as well as any potential changes to legislation or regulations.
- OSFI will continue to review, and modify where appropriate, its existing guidance in light of the changes that are being brought about by the adoption of IFRS.

Financial Resources and Human Resources: Included in Priority 2

PRIORITY E

Strategic Outcome: Regulate and Supervise to Contribute to Public Confidence in Canada's Financial System and Safeguard from Undue Loss

Program Activity: Regulation and Supervision of Federally Regulated Financial Institutions

Program Sub-Activity: Rule Making

Priority E: Minimum Continuing Capital Surplus Requirements (MCCSR) (New)

Description
Develop and agree on a capital framework for life insurance companies. This is a multi-year priority with staged implementation expected to begin in 2011.

Key Expected Results
- MCCSR guideline appropriately addresses risks faced by the life insurance industry and provides a sufficient level of capital for the protection of policyholders as per OSFI's mandate.
- Processes and systems are in place to accommodate changes resulting from MCCSR.

Key Performance Measures / Achieved Results	Ratings
1. *NEW* Appropriate capital guidelines are developed, taking account of risks. • Worked with the life insurance industry through the MCCSR Advisory Committee (MAC) to develop proposals for more advanced risk measurement techniques into the MCCSR.	2007-08 – Successfully met 2006-07 – N/A 2005-06 – N/A
2. *NEW* Internal processes and systems are updated to accommodate changes resulting from MCCSR and accounting changes in agreed-upon timelines. • Discussions about process and system updates took place during the year. Material modifications are expected to start in 2009.	2007-08 – Successfully met 2006-07 – N/A 2005-06 – N/A

Performance Discussion

Steps taken during the year in support of this objective include:
- Through the MAC, OSFI issued two papers, one outlining the vision for a new more risk-sensitive solvency framework for life insurers and the other a draft for discussion outlining proposals for a standard approach for establishing the level of capital a life insurer should maintain.

Steps planned for the future to improve performance include:
- OSFI will continue to work with various stakeholders (other Canadian regulators, industry, MAC) to develop more specific aspects of the solvency framework, including specific risk categories. Work will also be undertaken to ensure that the new framework conforms to the new accounting for insurance contracts under the IFRS.

Financial Resources and Human Resources: Included in Priority 2

PRIORITY 3

Strategic Outcome: Regulate and Supervise to Contribute to Public Confidence in Canada's Financial System and Safeguard from Undue Loss	
Program Activity: Regulation and Supervision of Federally Regulated Financial Institutions	
Program Sub-Activity: Approvals	
Priority 3: A prudentially effective, balanced and responsive approvals process. (Ongoing)	
Description Approvals include those required under the legislation applicable to financial institutions and other approvals for supervisory purposes.	
Key Expected Results • OSFI's regulatory approvals result in prudentially sound decisions that are timely, clear and transparent. • Decisions for legislative approvals and non-legislative approvals are completed within specified time limits.	
Key Performance Measures / Achieved Results	**Ratings**
1. *NEW* **Percentage of knowledgeable observers who understand somewhat or very well the basis upon which OSFI makes its decisions as part of the approval process.** *Source: Report on Financial Institutions Survey 2008*[7] • 82% of financial institution CEOs understand somewhat or very well the basis upon which OSFI makes applications decisions.	2007-08 – Successfully met 2006-07 – N/A 2005-06 – N/A
2. **Percentage of completed applications for legislative approvals that are processed within established performance standards.** • 98% of completed deemed approvals filed were decided upon within communicated time limits.[8] All other performance standards established under the *User Fee Act* and the Policy on Service Standards for External Fees were met in the year under review.	2007-08 – Exceeded expectations 2006-07 – Exceeded expectations 2005-06 – Exceeded expectations

[7] OSFI provided The Strategic Counsel, an independent research firm, with a list of CEOs of federally regulated financial institutions. The research firm invited the CEOs to participate in either an online or a telephone survey, and 166 (61%) participated. OSFI does not know which CEOs participated. The complete report is available on OSFI's Web site under Organization / Reports, Consultations and Surveys.

[8] 90% of deemed approvals must be processed in less than 30 calendar days of receipt. For a detailed listing of all other performance standards, please refer to OSFI's website under For Regulated Entities / Banks / Applications and Approvals / User fees-Service Charges.

Performance Discussion

Steps taken during the year in support of this objective include:

- Processed 651 approvals related to 278 applications including approvals relating to the establishment of 15 new federal financial institutions either as new incorporations, continuances from other jurisdictions or Canadian branches of foreign institutions.
- Processed 54 non-deemed approvals of deposit and trust agreements and letters of credit.
- Continued to assess foreign regulators and country risks for those new entry applicants from unfamiliar jurisdictions.
- Developed and published on OSFI's web site five rulings and two advisories, one relating to insurance in Canada of risks and the other relating to control in fact.
- Considerable time was spent dealing with issues relating to the legislated self dealing regime applicable to FRFIs as well as Part XII of the *Bank Act* and Part XIII of the *Insurance Companies Act*.
- Provided 44 advance capital confirmations on the eligibility of proposed capital instruments.
- Hosted a Legislation and Approvals Seminar for industry, focused on issues related to OSFI's approvals process; feedback was very positive.

Steps planned for the future to improve performance include:

- Enhance the transparency of OSFI's statutory approvals process and promote a better understanding of OSFI's interpretation of the federal financial institution statutes by publishing new rulings, advisories and transaction instructions that set out interpretations of the financial institution legislation primarily in respect of issues linked to applications for regulatory approval.
- Review and amend transaction instructions and advisories to reflect latest legislative changes.
- Enhance approval processes in line with management response to internal audit recommendations.

Financial Resources ($ millions)

Planned	Authorities	Actual
$7.7	$7.7	$7.2

Human Resources (average Full-Time Equivalents, including Internal Services)

Planned	Actual	Difference
36	41	(5)

PRIORITY 4

Strategic Outcome: Regulate and Supervise to Contribute to Public Confidence in Canada's Financial System and Safeguard from Undue Loss

Program Activity: Regulation and Supervision of Federally Regulated Private Pension Plans

Program Sub-Activity: Activities related to the Regulation and Supervision of Federally Regulated Private Pension Plans

Priority 4: Accurate risk assessments of pension plans, timely and effective intervention and feedback, a balanced, relevant regulatory framework, and a prudentially effective and responsive approvals process. (Ongoing)

Description
Incorporates risk assessment, intervention, rule making and approvals related to federally regulated private pension plans under the *Pension Benefits Standards Act, 1985*.

Key Expected Results
- OSFI uses a modern supervisory process that leads to an accurate overall assessment of the risk profile of the pension plans that it regulates.
- In exercising its early intervention mandate, OSFI is proactive in intervening in problem plans that it regulates.
- Risk assessments and management reports are timely and clear.
- Intervention action is commensurate to the seriousness of the problem/issue at hand.

Key Performance Measures / Achieved Results	Ratings
1. *NEW* **Recovery on pension plans that have terminated under-funded.**[9] *Source: Internal Statistics* • In the last fiscal year, three pension plans terminated in an under-funded position. All three have made commitments to fully fund the deficit and thus provide plan beneficiaries with 100% of their promised benefit. NOTE: Measures 2, 3 and 4 were not assessed in the year under review.	2007-08 – Successfully met 2006-07 – N/A 2005-06 – N/A
2. *NEW* **Percentage of knowledgeable observers who rate OSFI as good or very good at developing guidance that is clear and understandable.**	2007-08 – N/A 2006-07 – N/A 2005-06 – N/A
3. *NEW* **Percentage of knowledgeable observers who rate OSFI as good or very good at developing guidance that strikes an appropriate balance between the interests of plan sponsors and plan members.**	2007-08 – N/A 2006-07 – N/A 2005-06 – N/A
4. *NEW* **Percentage of knowledgeable observers who rate OSFI as good or very good at timeliness of processing approvals.** For Measures 2, 3 and 4 above: In 2005, OSFI commissioned independent consultations with pension plan sponsors and professionals. Among sponsors (62%) and professionals (79%), satisfaction with OSFI	2007-08 – N/A 2006-07 – N/A 2005-06 – N/A

[9] This measure is a proxy for whether OSFI intervened early enough to prevent undue loss to plan beneficiaries. Estimated recovery is the percentage of the benefit promised that each plan beneficiary would receive upon the completion of the liquidation.

as a regulator of federal private pension plans was moderately high.
Source: Pension Consultation Findings 2005[10]

Performance Discussion

Steps taken during the year in support of this objective include:

- Used the Estimated Solvency Ratio exercise to identify defined benefit plans with an estimated solvency funding deficit (about 56% of supervised defined benefit plans as at December 2007, compared to 51% in December 2006).
- Published revised guidance on the filing and reporting requirements for defined benefit pension plan terminations, the filing and reporting requirements for defined contribution pension plan terminations, the preparation of actuarial reports, as well as drafted new guidance on the transfer of assets between defined contribution plans.
- Completed 15 on-site examinations during the year, with a continued focus on governance.
- Continued to promote responsible pension plan governance and actuarial practices by working closely with the Canadian Association of Pension Supervisory Authorities (CAPSA) and the Canadian Institute of Actuaries, as well as with Humber College and Indian and Northern Affairs Canada with respect to the governance of First Nations defined contribution pension plans.
- Worked with the Department of Finance to develop legislation and regulations for phased-in retirement.

Steps planned for the future to improve performance include:

- OSFI will encourage certain plans to perform stress testing on their solvency positions.
- OSFI will publish further guidance to facilitate the submission and processing of pension approvals.

Financial Resources ($ millions)

Planned	Authorities	Actual
$6.5	$6.5	$5.8

Human Resources (average Full-Time Equivalents, including Internal Services)

Planned	Actual	Difference
35	42	(7)

[10] In 2005-2006, OSFI provided The Strategic Counsel, an independent research firm, with a list of pension plan sponsors and professionals. The research firm invited 399 of these stakeholders to participate in a web survey, and 158 (40%) responded. The research firm also conducted 69 one-on-one confidential interviews. The research firm selected the samples independently from the list and OSFI does not know who was interviewed. The complete report is available on OSFI's Web site under Organization – Reports – Consultations and Surveys.

PRIORITY F

Strategic Outcome: Regulate and Supervise to Contribute to Public Confidence in Canada's Financial System and Safeguard from Undue Loss

Program Activity: Regulation and Supervision of Federally Regulated Private Pension Plans

Program Sub-Activity: Activities related to the Regulation and Supervision of Federally Regulated Private Pension Plans

Priority F: Pension Systems and Processes (New)

Description
Enhance OSFI's ability to perform as required in an increasingly complex pensions environment. This is a multi-year priority with full implementation expected in 2010-2011.

Key Expected Results
- Pension systems and processes adequately facilitate pension supervision and approvals.

Key Performance Measures / Achieved Results	Ratings
1. *NEW* Pension system and process changes are implemented according to agreed-upon timelines. • Initiated two projects to: 1) develop systems to support efficient approval processes and selected a winning bidder following a competitive tendering process, and 2) review the pension risk assessment framework.	2007-08 – Successfully met 2006-07 - N/A 2005-06 - N/A

Performance Discussion

Steps taken during the year in support of this objective include:
- OSFI's review of its pensions risk assessment framework sets the stage for the definition of system requirements to support pension supervision.
- Focused effort on reducing a backlog in requests for approvals, including refining internal approval processes and publishing additional approval instruction guides, resulted in a 25% reduction in the number of outstanding approvals from our last year end as well as a significant 50% reduction in the number of approvals older than two years.

Steps planned for the future to improve performance include:
- Completion of the implementation of the new system to support the pension approvals function.
- Completion of the review of the pension risk assessment framework, update our risk assessment and monitoring processes and develop high-level requirements for the associated pensions IT system to support it.
- Continue to improve the efficiency and timeliness of its approvals process targeting a further 25% reduction in the number of approvals older than one year.

Financial Resources and Human Resources: Included in Priority 4

PRIORITY 5

Strategic Outcome: Regulate and Supervise to Contribute to Public Confidence in Canada's Financial System and Safeguard from Undue Loss	
Program Activity: International Assistance	
Program Sub-Activity: Activities related to International Assistance	
Priority 5: Contribute to awareness and improvement of supervisory and regulatory practices for selected foreign regulators through the operation of an International Assistance Program. (Ongoing)	
Description This program activity incorporates activities that provide help to other selected countries that are building their supervisory and regulatory capacity. The costs for this program are recovered primarily via a Memoranda of Understanding between OSFI the Canadian International Development Agency (CIDA).	
Key Expected Results • Contribute to the awareness and improvement of supervisory and regulatory practices for foreign regulators and jurisdictions.	
Key Performance Measures / Achieved Results	**Ratings**
1. **Workshop participants and clients are of the view that the assistance provided by OSFI is relevant to their work.** *Source: Survey of International Advisory Group (IAG) program participants* [11] • Among respondents, 95.0% found the assistance provided by IAG to be relevant, e.g., providing new knowledge; helpful to their professional work.	2007-08 – Successfully met 2006-07 – Successfully met 2005-06 – Successfully met
2. ***NEW* Workshop participants and clients are of the view that OSFI trainers are competent.** *Source: Survey of IAG program participants* • Among respondents, 98.3% found IAG trainers to be very competent or competent.	2007-08 – Successfully met 2006-07 – N/A 2005-06 – N/A

[11] Surveys are provided to workshop participants when IAG staff are the primary presenters. IAG delivered 27 such workshops in 2007-2008, with 1009 participants. A total of 808 surveys were completed, for a response rate of 80.1%. A revised questionnaire was implemented part way during the year, which introduced the second performance measure. This question was completed by 458 participants.

Performance Discussion

Steps taken during the year in support of this objective include:

- During 2007-2008, IAG delivered 42 bilateral or multilateral programs, sometimes in partnership with other technical assistance providers, in 30 countries.
- IAG continues to work closely with the supervisory authorities in Ghana, Nigeria and Malaysia to help these jurisdictions transition to risk-based supervision for financial institutions.
- CIDA's Performance Review Policy necessitates periodic independent evaluations of its technical assistance projects. In the fall of 2007, CIDA consulted with a number of organizations overseas that have received assistance from OSFI. The results of these inquiries indicate that there have been important and generally sustainable impacts on capacity building in countries where IAG has established continuing relationships through follow-up visits. OSFI's training workshops were also seen to be useful.

Steps planned for the future to improve performance include:

- Going forward, IAG will increasingly try to focus on a limited number of priority countries chosen primarily for their capacity to effect change.

Financial Resources ($ millions)

Planned	Authorities	Actual
$2.0	$2.0	$2.0

Human Resources (average Full-Time Equivalents, including Internal Services)

Planned	Actual	Difference
7	7	0

PRIORITY 6

Strategic Outcome: Contribute to Public Confidence in Canada's Public Retirement Income System

Program Activity: Office of the Chief Actuary (OCA)

Program Sub-Activities: Canada Pension Plan & Old Age Security; Public Pension Plans; Canada Student Loans

Priority 6: Contribute to ensuring there are financially sound federal government public pension and other programs. (Ongoing)

Description

The OCA provides a range of actuarial services, under legislation, to the Canada Pension Plan (CPP) and some federal government departments. The OCA estimates long-term expenditures, revenues and current liabilities of the CPP and of long-term future expenditures for the Old Age Security (OAS) program, and prepares statutory triennial actuarial reports on the financial status of the Public Sector Pension and Benefits Plans. The OCA also undertakes the actuarial review of the Canada Student Loans Program (CSLP).

Key Expected Results

- Provide expert and timely actuarial advice in the form of high-quality reports tabled in Parliament, in respect of the CPP.
- Provide expert and timely actuarial advice in the form of high-quality reports, in respect of Public Sector Pension and Benefits Plans.
- Provide expert and timely actuarial advice in the form of high-quality reports, in respect of the CSLP.

Key Performance Measures / Achieved Results	Ratings
1. CPP Peer Review Panel[12] agrees that the Chief Actuary and his staff have adequate professional experience to provide expert advice in regard to, and undertake actuarial valuations of the CPP. • The external peer panel's findings confirm that the professional experience of the Chief Actuary and the staff who worked on the 23rd Actuarial Report was adequate for carrying out the work required.	2007-08 – Successfully met 2006-07 – N/A 2005-06 – N/A
2. The CPP Triennial Actuarial report was completed and tabled within legislated requirements and timeframes. • The 23rd Actuarial Report on the CPP was tabled in the House of Commons, as required, in October 2007.[13]	2007-08 – Successfully met 2006-07 – N/A 2005-06 – N/A
3. Independent observers[14] are of the view that reports on the Public Sector Pension & Benefits Plans are comprehensive and that the actuarial opinion is appropriate. • The Office of the Auditor General (OAG) received reviews that confirmed that the valuations of the liability estimates for accounting purposes prepared by the OCA conform to the requirements of Section PS 3250 and PS 3255 of the CICA Public Sector Accounting Handbook and use sufficient and reliable data, reasonable assumptions and consistent methodology.	2007-08 – Successfully met 2006-07 – Successfully met 2005-06 – Successfully met
4. The Public Sector Actuarial Reports were completed and tabled within legislated requirements and timeframes. The OCA tabled actuarial reports on pension plans as follows: • for RCMP (Dependants) on October 29, 2007; • for federally appointed judges on January 28, 2008; • for members of Parliament on April 28, 2008.	2007-08 – Successfully met 2006-07 – Successfully met 2005-06 – Successfully met

[12] The CPP Peer Review is conducted every three years. The most recent review was completed March 2008.

[13] The OCA is required by law to produce an actuarial report on the CPP every three years. The next report will be published in 2010.

[14] A consultant is engaged by the OAG to review various OCA public pension actuarial reports and documents relevant to the information disclosed in the Public Accounts of Canada.

5. *NEW* The Office of the Chief Actuary is the service provider of choice to complete actuarial reports in respect of the CSLP.[15] • In 2007, the OCA received the mandate to provide the appropriate ministers a seventh actuarial review of the CSLP.	2007-08 – Successfully met 2006-07 – N/A 2005-06 – N/A
6. *NEW* The CSLP Actuarial Report was completed within the agreed-upon requirements and deadlines of HRSDC. • In June 2007, the OCA completed and provided on time to the appropriate ministers the sixth actuarial review of the CSLP.	2007-08 – Successfully met 2006-07 – N/A 2005-06 – N/A

Performance Discussion

Steps taken during the year in support of this objective include:

- The triennial actuarial report on the CPP involves projections of CPP revenues and expenditures over a long time period (75 years), so that the future impact of historical and projected trends in demographic and economic factors can be properly assessed. Canadians want to feel confident that the CPP will be able to meet their needs in future years. The actuarial report provides Canadians with the most recent information on the financial status of the Plan. Most of the recommendations identified in the previous review were taken into account in the 23rd Actuarial Report on the CPP.
- The public sector pension and benefit plans reports prepared by the OCA provide actuarial information to decision-makers, Parliamentarians and the public, increasing transparency and confidence in the retirement income system.

Steps planned for the future to improve performance include:

- In 2008-2009, the OCA will continue to provide actuarial services for the CPP, OAS and other government programs.
- The OCA will look for ways of improving how it delivers services to its clients by implementing recommendations from independent peer reviews, improving valuation techniques, and participating in professional meetings and committees to broaden its sources of information and advice.

Financial Resources ($ millions)

Planned	Authorities	Actual
$6.1	$6.1	$5.1

Human Resources (average Full-Time Equivalents, including Internal Services)

Planned	Actual	Difference
39	36	3

[15] The CSLP actuarial reports are completed on an annual basis.

SECTION III: SUPPLEMENTARY INFORMATION

III.1 Links to Government of Canada's Outcomes

OSFI's strategic outcomes, supported by its plans and priorities, are intrinsically aligned with broader government outcomes, specifically *strong economic growth, income security and employment for Canadians*, and *a safe and secure world through international co-operation*, as identified in the TBS report *Canada's Performance 2007*. The following table summarizes the linkages between OSFI's strategic outcomes, program activities and the Government of Canada's Outcomes. The specific linkages are described in more detail after the table.

Strategic Outcome # 1: ***To regulate and supervise to contribute to public confidence in Canada's financial system and safeguard from undue loss.***				
	Actual Spending 2007-08 ($ millions)			Alignment to Government of Canada Outcome Area
	Budgetary	Non-budgetary	Total	
Program Activity 1.1 Regulation and Supervision of Federally Regulated Financial Institutions	$72.8		$72.8	• Strong economic growth • A safe and secure world through international co-operation
Program Activity 1.2 Regulation and Supervision of Federally Regulated Private Pension Plans	$5.8		$5.8	• Strong economic growth • Income security for Canadians
Program Activity 1.3 International Assistance	$2.0		$2.0	• Strong economic growth • A safe and secure world through international co-operation
Strategic Outcome #2: ***To contribute to public confidence in Canada's public retirement income system.***				
Program Activity 2.1 Office of the Chief Actuary	$5.1		$5.1	• Income security for Canadians

Strong Economic Growth

A properly functioning financial system, in which consumers have a high degree of confidence, makes a material contribution to Canada's economic performance. OSFI supervises and regulates more than 450 federally regulated financial institutions, and intervenes in a timely manner to protect depositors and policyholders, while recognizing that not all failures can be prevented.

During 2007-2008, OSFI focussed on assessing the impact of volatile credit and financial markets on FRFIs' liquidity and capital levels.

Income Security and Employment for Canadians

OSFI supervises and regulates more than 1,300 pension plans covering employees in federally regulated areas of employment, and works to promote responsible pension plan risk management, governance and actuarial practices.

During 2007-2008, OSFI emphasized the need for plan administrators to assess their exposure to market and other stresses, to consider their risk tolerance, and to take action to manage risk appropriately.

Canada has set in place a public pensions system that is expected to be sustainable and affordable well into the future in the face of changing demographic conditions. The Office of the Chief Actuary (OCA) provides appropriate checks and balances on the future costs of the different pension plans and social programs that fall under its responsibilities.

During 2007-2008, the OCA produced and tabled before Parliament actuarial reports on the Canada Pension Plan, various public sector employee pension and insurance plans, and the Canada Student Loans Program.

A Safe and Secure World through International Cooperation

OSFI supports the government's priority for a safe and secure world by contributing to the fight against terrorism financing and money laundering. OSFI's focus relates to the guidance and supervisory review of the operation of financial institution programs to comply with anti-money laundering/anti-terrorism financing (AML/ATF) requirements.

During 2007-2008, OSFI turned the focus of its AML/ATF assessment program to the life insurance sector, and found that progress had been made in the development of effective AML/ATF programs. However, OSFI intervened where necessary to ensure institutions addressed weaknesses and deficiencies that had been identified.

Canada and other G-7 governments recognize that upgrading the supervisory capacity of emerging market supervisory authorities can enhance the stability of the global financial system. Canada plays an important role in this regard, in part through OSFI's technical

assistance program, which helps selected emerging market economies to improve the supervisory systems for their financial institutions in line with international banking and insurance supervisory standards.

During 2007-2008, OSFI's International Advisory Group (IAG) delivered several bilateral or multilateral programs, sometimes in partnership with other technical assistance providers, in some 30 countries, many of which necessitated follow-up visits.

III.2 Financial and Other Tables

This section presents a number of financial tables that detail OSFI's Expenditures, Revenues and Statutory Payments for 2007-2008. Tables 1 and 2 are provided in accordance with Treasury Board requirements. Tables 3, 4A, 4B, 5, 6, 7 and 8 provide additional information on Respendable and Non-Respendable Revenue, User Fees, Service Standards for External Fees, Responses to Parliamentary Committees, Internal Audits and Travel Policies, according to Treasury Board requirements. (NOTE: In accordance with TBS guidelines, tables 3, 4A, 4B, 5, 6, and 7 do not form part of this document but links are provided. A link is also provided to the Financial Statements, termed Table 8.)

Background

Overall, OSFI recovered all its expenses for the fiscal year 2007-2008 based on the recording of its revenues and expenses on a full accrual accounting basis according to Canadian Generally Accepted Accounting Principles (GAAP) for the private sector. The following tables provide details on OSFI's spending compared to plan as detailed in the 2007-2008 Report on Plans and Priorities.

Further details on OSFI's finances are available in its Audited Financial Statements, which are published in OSFI's Annual Report. OSFI's annual reports can be accessed on OSFI's web site under Organization / Reports / Annual Reports.

NOTE: OSFI operates on an accrual basis and the following tables are reported on a modified cash basis, hence there are differences between the audited financial statements and the following tables. Typically the differences result from the accounting treatment of capital expenditures and accounts receivable.

Table 1: Comparison of Planned to Actual Spending (including average full-time equivalents)

OSFI has four program activities: (1) Regulation and Supervision of Federally Regulated Financial Institutions; (2) Regulation and Supervision of Federally Regulated Private Pension Plans; (3) International Assistance; and (4) Office of the Chief Actuary. The table below provides a comparison of OSFI's 2007-2008 planned versus actual spending by program activity, and a comparison to actual spending in the two previous fiscal years.

The amounts shown in Table 1 reflect net spending: total expenditures less total revenue. As OSFI must fully recover its expenditures or costs for all programs other than the Office of the Chief Actuary, the planned spending is zero on a modified cash basis. OSFI fully recovered its costs on an accrual basis as shown in its audited financial statements; however differences between the accounting methodologies give rise to fluctuations from year to year in spending levels. Table 1 below illustrates such fluctuations in actual spending.

($ thousands)	2005–2006 Actual	2006–2007 Actual	2007–2008			
			Main Estimates	Planned Spending	Total Authorities	Actual
(1) Regulation and Supervision of Federally Regulated Financial Institutions	(6,757)	4,150	-	-	-	(3,931)
(2) Regulation and Supervision of Federally Regulated Private Pension Plans	1,584	447	-	-	-	(1,402)
(3) International Assistance	380	273	-	-	-	379
(4) Office of the Chief Actuary	32	434	784	784	873	603
Total	**(4,761)**	**5,304**	**784**	**784**	**873**	**(4,351)**
Less: Non-Respendable revenues	805	227	-	-	-	374
Plus: Cost of services received without charge*	438	658	-	-	-	113
Net Cost of Program	**(5,128)**	**5,735**	**784**	**784**	**873**	**(4,612)**
Average Full-Time Equivalents	**434**	**446**	**461**			**459**

* 2007-2008 includes services from the Office of the Auditor General ($85K) and Department of Justice ($28K)

On the modified cash basis of accounting, OSFI had a greater inflow of funds than outflows during 2007-2008. This is largely the result of collections during the year of outstanding accounts receivable pertaining to 2006-2007, and of base assessments and pension fees for the current year, which included amortization expense (a non-cash item) related to capital acquisitions in prior years. These timing differences cause fluctuations from year to year in OSFI's spending levels on a modified cash basis, and explain the total inflow of $4,351 thousand in 2007-2008 versus the previous year's net expenditures of $5,304 thousand. OSFI also incurred lower capital spending than planned due to later

start dates and deferrals to fiscal year 2008-2009 of Information Management/ Information Technology projects.

Table 2: Voted and Statutory Items

Vote or Statutory Item	Truncated Vote or Statutory Wording	2007–2008 ($ thousands)			
		Main Estimates	Planned Spending	Total Authorities	Total Actual
30	Operating expenditures	784	784	873	603
	Total	**784**	**784**	**873**	**603**

This table summarizes Parliament's voted appropriations, or funds, to OSFI. OSFI receives an annual parliamentary appropriation pursuant to section 16 of the *OSFI Act* to support its mandate relating to the Office of the Chief Actuary.

In this fiscal year, OSFI was granted $873 thousand (2007: $768 thousand). This parliamentary appropriation is to defray the expenses associated with the provision of actuarial services to various public sector employee pension and insurance plans, including the Canadian Armed Forces, the Royal Canadian Mounted Police, the federally appointed judges and Members of Parliament.

Please note that the appropriations are calculated using a modified cash basis of accounting rather than full accrual accounting. This difference will give rise to variances between OSFI's use of funds and appropriated funds.

In keeping with TBS guidelines, the following tables are available only electronically.

Table 3: Sources of Respendable and Non-Respendable Revenue
Table 4A: *User Fees Act*
Table 4B: Policy on Service Standards for External Fees
Table 5: Response to Parliamentary Committees and External Audits
Table 6: Internal Audits and Evaluations
Table 7: Travel Policies

For supplementary information on these tables, please visit Treasury Board of Canada Secretariat website's Estimates / 2007-2008 Departmental Performance Reports: http://www.tbs-sct.gc.ca/dpr-rmr/2007-2008/index-eng.asp

Table 8: Financial Statements

OSFI's Audited Financial Statements are published each year in OSFI's Annual Report, which is tabled in Parliament in the fall. The 2007-2008 Annual Report can be found on OSFI's Web site under Organization / Reports / Annual Reports.

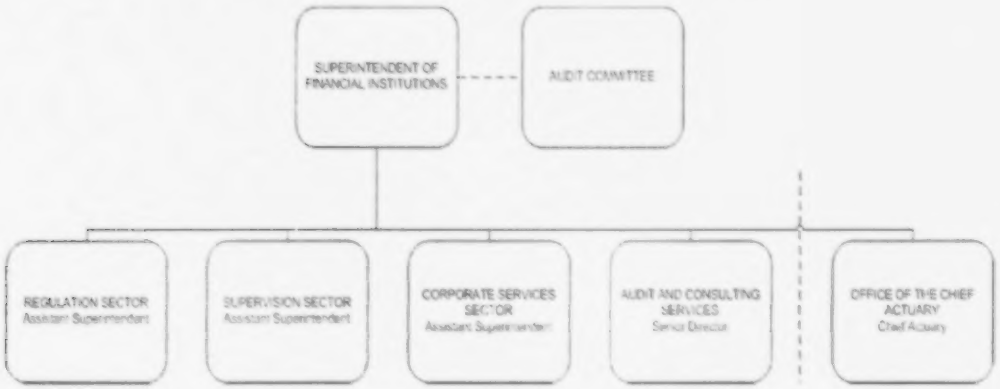
SECTION IV: OTHER ITEMS OF INTEREST

IV.1 Organizational Information

OSFI comprises three sectors (see organization chart below), each headed by an Assistant Superintendent. Each sector works interdependently to achieve OSFI's strategic outcomes. There is also an independent Internal Audit and Consulting Services function that reports directly to the Superintendent. In addition, OSFI has an Audit Committee that is primarily composed of external members.

The Office of the Chief Actuary was created within the organization as a separate unit to provide effective actuarial and other services to the Government of Canada and provincial governments that are Canada Pension Plan (CPP) stakeholders.

OSFI Organization Chart, as at March 31, 2008



Workforce

As at March 31, 2008, OSFI employed 467 people in offices located in Ottawa, Montreal, Toronto and Vancouver.

Sector	As at March 31, 2007	% of total	As at March 31, 2008	% of total
Supervision	177	38%	177	38%
Regulation	127	27%	134	28%
Office of the Chief Actuary	26	6%	26	6%
Corporate Services and other[16]	132	29%	130	28%
TOTAL	**462**	**100%**	**467**	**100%**

[16] "Other" includes employees in the Superintendent's Office, Internal Audit and Consulting Services and the Secretariat of the Audit Committee.

IV.2 Internal Services

Please refer to OSFI's PAA in Section I for a listing of Internal Services.

To facilitate government-wide roll-ups, the costs of OSFI's Internal Services and program support activities are allocated to each program activity to present the full program costs. The following table illustrates how OSFI's 2007-2008 actual Internal Services costs are allocated to its other program activities.

($ thousands)	Program Activity				
	Regulation and Supervision of Federally Regulated Financial Institutions	Regulation and Supervision of Federally Regulated Private Pension Plans	International Assistance	Office of the Chief Actuary	Total - 2007-2008 Actual
Information Technology Services	9,939	648	138	564	**11,289**
Human Resources Management Services	6,981	455	97	396	**7,929**
Facilities/Asset Management Services	3,389	221	47	192	**3,849**
Public Affairs/Communications Services	2,583	168	36	147	**2,934**
Information Management Services	1,728	113	24	98	**1,963**
Financial Management Services	1,372	89	19	78	**1,558**
Internal Audit Services	1,223	80	17	70	**1,390**
Management and Oversight Services	916	60	12	52	**1,040**
Other Support Delivery Services	690	45	9	39	**783**
Legal Services	513	33	7	29	**582**
Supply Chain Management Services	199	13	3	11	**226**
TOTAL Internal Services	**29,533**	**1,925**	**409**	**1,676**	**33,543**

IV.3 Program Support Priorities

OSFI has two Program Support Priorities that support the Program Activities. In addition, for 2007-2008, OSFI had a Management Priority in support of the Program Activities. These three Priorities and their performance information are discussed below.

PRIORITY 7

Priority 7: High quality internal governance and related reporting. (Ongoing)	
Description OSFI's Program Activities are supported by Corporate-wide Activities, whose costs are allocated to each Program Activity. These activities include, among others, Management and Oversight Services, Financial Management Services, Public Affairs/Communications Services, and Internal Audit Services.	
Key Expected Results • Operational units are operating within applicable policies, acts and guidelines. • OSFI's financial results accurately reflect the financial position of OSFI.	
Key Performance Measures / Achieved Results	**Ratings**
1. Internal Audits of reviewed units find that controls are in place and units are operating within applicable acts, policies and guidelines, and/or identifies areas for action. • Audit reports, which include management's response to any identified issues, are posted on OSFI's Web site. These reports identify several opportunities for the improvement of certain policies and practices. Action plans to deal with these matters are underway and on track.	2007-08 – Successfully met 2006-07 – Successfully met 2005-06 – Successfully met
2. Office of the Auditor General audit attests that OSFI's financial statements present fairly, in all material respects, the financial position of OSFI at the year-end and the results of its operations and its cash flows for the year in accordance with Generally Accepted Accounting Principles (GAAP). • OSFI received an unqualified audit opinion in 2007-2008 attesting that the financial statements present fairly, in all material respects, OSFI's position at year-end and the results of its operations and its cash flows for the year ended in accordance with GAAP for the private sector.	2007-08 – Successfully met 2006-07 – Successfully met 2005-06 – Successfully met
3. *NEW* Treasury Board's audits of OSFI, in the scope of its government-wide Horizontal Audits, confirm no material findings for OSFI. • OSFI participated in a Treasury Board Horizontal Audit of Small Departments and Agencies (SDA) on Travel and Hospitality. Audit results for OSFI confirmed no significant or material findings.	2007-08 – Successfully met 2006-07 – N/A 2005-06 – N/A

Performance Discussion

Steps taken during the year in support of this objective include:

- In response to Treasury Board's minor recommendations specific to OSFI as part of the Horizontal Audit of Small Departments and Agencies on Travel and Hospitality, OSFI developed, implemented and completed an action plan.
- To further support the effectiveness and independence of its performance reporting, OSFI:
  - enhanced its Performance Measurement Framework and performance measures for external reporting to Parliament, Treasury Board and other stakeholders. OSFI's framework, measures, indicators, targets and reporting cycles met the requirements of the Treasury Board's Management Resources and Results Structure Policy and were approved by the Treasury Board in December 2007.
  - embedded its updated performance measures, indicators and targets into its *2008-2009 Report on Plans and Priorities* and implemented its reporting in accordance with the framework effective its *2007-2008 Departmental Performance Report*.
- OSFI implemented rolling quarterly reviews of its environmental scans and enterprise-wide risk management processes.
- OSFI initiated its Common Look and Feel project to enhance its Web site, as required in support of this government-wide initiative.
- Responded to the finding in the "Audit of Active Offer of Communications with and Services to the Public in Both Official Languages"(see Table 5 of OSFI's DPR available at Treasury Board of Canada Secretariat website's Estimates / 2007-2008 Departmental Performance Reports: http://www.tbs-sct.gc.ca/dpr-rmr/2007-2008/index-eng.asp).

Steps planned for the future to improve performance include:

- OSFI will refine its corporate planning process to more fully integrate IM/IT and HR planning, and performance management into the overall process.
- Treasury Board's final horizontal audit report (for the SDA community as a whole) had not yet been released at the time of writing of this DPR. Once the Treasury Board's horizontal audit report on travel and hospitality becomes available, OSFI will assess any audit findings and determine whatever measures are necessary.
- Once received, OSFI will consider and assess any findings of the Canadian Public Service Agency audit report examining whether employees have the opportunity to be supervised in the official language of their choice (see Table 5 of OSFI's DPR available at Treasury Board of Canada Secretariat website's Estimates / 2007-2008 Departmental Performance Reports: http://www.tbs-sct.gc.ca/dpr-rmr/2007-2008/index-eng.asp).

Financial and Human Resources: Included in Priorities 1 to 6.

PRIORITY 8

Priority 8: Resources and infrastructure necessary to support supervisory and regulatory activities. (Ongoing)

Description

OSFI's Program Activities are supported by Corporate-wide Activities, whose costs are allocated to each Program Activity. These activities include, among others, Human Resources Management Services, Management and Oversight Services, Supply Chain Management Services, Facilities/Asset Management Services, Information Management Services, Information Technology Services, and Other Support Delivery Services.

Key Expected Results

- Operational units within program support are efficient and effective, i.e., deliver services at reasonable cost and turn-around time relative to peers.
- High quality staff and a stable, motivated and skilled workforce.
- Staff recognize the improvements made at OSFI.

Key Performance Measures / Achieved Results	Ratings
1. External reviewers find OSFI's Program Support to be efficient. • In 2007-2008, the Gartner Group performed a benchmarking study of OSFI's Information Technology (IT) function. The study concluded that OSFI: o is well supported with IT infrastructure; o demonstrates a mature application release strategy process; o should review and update its Information Management and Information Technology (IM/IT) Strategies; and o should review its governance processes supporting the conceptualization and prioritization of major IM/IT initiatives, and the rationalization of enhancements to existing systems.	2007-08 – Successfully met 2006-07 – N/A 2005-06 – Successfully met
2. Knowledgeable observers are of the view that OSFI has high quality staff. NOTE: The consultations with industry stakeholders which were undertaken for the year in review did not address this topic.	2007-08 – N/A 2006-07 – Successfully met (for actuarial staff) 2005-06 – Successfully met (for pension staff)
3. *NEW* Voluntary turnover reports are satisfactory. • Historically, the trend at OSFI has been for turnover to be in the 5-7% range, which is deemed as entirely acceptable. The 2007-08 quarterly reports show that turnover continues to be within the acceptable range.	2007-08 – Successfully met 2006-07 – N/A 2005-06 – N/A

4. *NEW* Employee Survey[17] finds that OSFI employees are motivated. • 87% of employees agree strongly or somewhat with the statement: "I would recommend OSFI as a good place to work." This is an increase from 82% which was reported in an abbreviated employee survey conducted in March 2006.	2007-08 – Successfully met 2006-07 – N/A 2005-06 – Successfully met
5. *NEW* Employee Survey shows improvements since the last survey. • The overall mean score on the 2007 employee survey, indicating employee approval, increased to 3.1 compared to 2.9 in 2005.	2007-08 – Successfully met 2006-07 – N/A 2005-06 – N/A

Performance Discussion

Steps taken during the year in support of this objective include:

- Provided quarterly voluntary turnover reports to the Executive Committee for review.
- Continued 360-degree feedback of executive leadership skills, which has contributed to increased employee satisfaction in relation to leadership behaviours.

Steps planned for the future to improve performance include:

- In response to the findings of the Gartner Group's IT Benchmarking Study, OSFI plans to:
    - review and update its IM and IT Strategies, and integrate them more closely into the Corporate Planning process;
    - review its governance processes supporting the conceptualization and prioritization of major IM/IT initiatives, and the rationalization of enhancements to existing systems; and,
    - review its applications portfolio for opportunities to streamline it and/or realize further benefits.
- Conduct employee focus groups to discuss feedback received on the Employee Survey on issues such as performance management and internal communications.
- Develop a management action plan in response to the results of the Employee Survey.
- Continue targeted recruitment of specific subject matter experts.

Financial and Human Resources: Included in Priorities 1 to 6.

[17] In the fall of 2007, Talentmap, an independent research firm, conducted a confidential on-line survey of OSFI employees. A total of 375 employees participated, for a response rate of 83%.

PRIORITY G

Priority G: Integration of Human Resources (HR) Planning into Business Planning (New)

Description
Ensure OSFI has the human resources available to fulfill its mandate, through better long-range, integrated planning.

Key Expected Results
- Improved allocation of resources.

Key Performance Measures / Achieved Results	Ratings
1. ***NEW* HR costs for ongoing operations do not change substantially, unless there are unplanned external factors.**	2007-08 - Successfully met 2006-07 - N/A 2005-06 - N/A
• Created a new supervisory team based in Ottawa to assist the Toronto-based Financial Institutions Group in managing the workload created by the growing risk profiles across OSFI's regulated industries, and staffed with existing resources. • Budgeted new positions for 2008-09 to increase capacity and complement targeted technical skills in anticipation of emerging risks.	

Performance Discussion

Steps taken during the year in support of this objective include:
- Implemented a formal deployment program that encourages employees to further hone their professional skills by experiencing different working environments within the organization.
- Compiled an inventory of industry experience among employees in Supervision as a recruitment aid in staffing vacancies.
- Completed a compensation survey that indicated OSFI's salary structure appropriately reflects salaries paid within the financial services industry.

Steps planned for the future to improve performance include:
- Continue to review the compensation structure to ensure OSFI remains competitive.
- Implement targeted recruitment strategies to maintain an appropriate balance between OSFI and recent industry experience.
- Provide proactive and timely learning opportunities to be better prepared for the impact of emerging risks.
- Shift emphasis from headcount management to budget management in order to lower vacancy rates and allow for more strategic recruitment.
- Continue to review and improve the tools and processes used to integrate HR planning into business planning. Refresh the OSFI HR strategic plan, together with people brand and strategic HR goals (including revamping the 360 feedback process, revising the employee survey, and investigating best practices with respect to work-life balance.)

Financial and Human Resources: Included in Priorities 1 to 6.

IV.4 Government Priorities and Other Initiatives

This section summarizes OSFI's involvement in a number of initiatives.

Program Activity Architecture – Performance Measurement Framework
In December 2007, OSFI received from the Treasury Board Secretariat approval of its performance measurement framework (PMF) and governance structure for the Office of the Superintendent of Financial Institutions' Strategic Outcomes and Program Activity Architecture. The PMF and governance structure were developed to meet the standards of Step 2 of the implementation of the Treasury Board's Management, Resources, and Results Structure Policy. The PMF will form the basis for systematic and ongoing collection of performance information.

Proactive Disclosure
In accordance with federal government policies introduced in 2004, OSFI published information on travel and hospitality expenses incurred within OSFI by the Superintendent, Assistant Superintendents and Chief Actuary, as well as information on contracts over $10,000 issued by or on behalf of OSFI. Effective spring 2006, the disclosure of Grants and Contributions was also required.

All proactive disclosure information is updated every three months on OSFI's Web site.

Acts, Legislation and Regulations
Information on the Acts, Legislation and Regulations administered by or impacting OSFI can be found on the OSFI Web site, www.osfi-bsif.gc.ca, under About OSFI / Legislation. The acts can be found on the Justice Canada Web site under "Laws" at http://laws.justice.gc.ca.

IV.5 Other References

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